# *LONG TERM GLOBAL GROWTH Q2 INVESTMENT UPDATE*

Investment specialist Tatjana Evans-MacLeod and investment manager John MacDougall give an update on the Long Term Global Growth strategy covering Q2 2023.

As with any investment, capital is at risk. Past performance is not a guide to future returns.

This communication was produced and approved in July 2023 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

**Tatjana Evans-MacLeod (TEM)**: Welcome to the Long Term Global Growth update for the second quarter. As a reminder, we are a concentrated portfolio, 30 to 60 names looking for high growth potential over long periods of time. I'm Tatjana Evans MacLeod. I'm an investment specialist on the strategy and I'm joined by John MacDougall, one of the decision makers.

John, as we said and as I said in the introduction, we're looking for returns over long periods of time, but clients would like a glimpse as to what recent performance has looks like.

**John MacDougall (JM)**: Yeah. So, as you know, Tatjana, we tend not to overly focus on shorter term share price moves in either direction. Looking at fundamental changes that either improve or decrease the chances of our holdings being some of the great outlier businesses is what we prefer to look at. But when I look at some of the more recent moves, I guess year to date, it strikes me as though we're seeing a little bit more of a return to normality compared to last year's really sort of indiscriminate moves.

**TEM**: Tough couple. A tough couple of years.

**JM**: Yeah. And yeah, so I think that we're seeing more signs that business performance is being rewarded in terms of share price moves. So, in the most recent period, Artificial Intelligence has been a major topic driven by the incredible progress that we saw initially with a business like Chat GPT. The uptake of that was really quite staggering. I think it's been suggested it was the quickest consumer product to reach 100 million users in just a couple of months after its launch before Christmas. And there's clearly a lot of buzz around this. But we think while you could debate some of the shorter term share price moves, whether people got a little bit over excited, we think this is a real genuine paradigm shift potentially because of the power that this technology will have to radically alter, we think, productivity of businesses in some cases and also contribute, I think, to more innovation and ease of business creation in the future. So, from a broader long term innovation perspective, I think this is really exciting.

**(TEM)**: And how would that impact Long Term Global Growth portfolio?

**JM**: Yeah, so as you know, the portfolio for many years now has been positioned to benefit from the increasing importance of high end chips, which particularly ties into the advance of Artificial Intelligence. So, from the likes of ASML, the high end manufacturing provider of semiconductor equipment to more recent purchase AMD the chip maker.

So, we have lots of names that potentially benefit from this. And I guess this is unsurprising given the focus of markets in the most recent period that some of our AI-related names were the strongest contributors to performance. So NVIDIA, the high end chip business was our largest holding over the period and indeed did very well, particularly after announcing what I think commentators had suggested was the largest ever upward revision during the quarter because they were seeing just such a jump in demand from data centre operators who needed these chips to help service all the new demand that was coming in from businesses trying to work out how to adapt large language models to their own unique situation. So, it is real tangible demand coming through already.

Several of our other holdings that have an element of AI within them were also strong performers. So Tesla, despite some softness in the auto business itself due to the economy. I think is highly regarded in terms of their investments that they've made in Artificial Intelligence over many years now. So, we know about it in terms of the autonomous driving application. But also, at their AI day last year they highlighted some of the other areas that they've been investing heavily in, including a glimpse of the humanoid robot that they've been talking about.

Even Amazon was a strong, very strong performer over the period for us, I think it will probably end up being one of the key channels by which businesses access some of these high powered new capabilities because of the reach the US has into all these businesses that were based on AWS's cloud. It seems a logical way that the companies will pay for access to this type of technology, and Amazon has been investing heavily for many years, even though they've not made as much noise externally about it as some others.

**TEM**: So, it sounds like in those names the operational progress is moving with the share price performance.

**JM**: Yes.

**TEM**: Vice versa.

**JM**: Yeah.

**TEM**: What about on the other side? Some of the detractors, not. Not everything has gone up.

**JM**: Yes. So, a name like Moderna, The vaccine business has not been participating in the stronger market in recent months. And the market is still very much focused on the COVID related revenues declining and is not yet prepared to give the company much credit for - Act Two which we strongly believe in, which is more vaccines related to the respiratory diseases and eventually cancer treatments as well.

And we think that the capabilities that they have built up in understanding that they developed in delivering such volumes of Covid vaccines really stand them in strong stead to build strong earnings growth over the next three to five years.

**TEM**: It's interesting that you say Act Two, because we've always talked about the importance of adaptability in the companies within the portfolio. You know, NVIDIA we've owned since 2016, AWS, Amazon since inception of the strategy. So there are different ways to grow. So I wonder if you're thinking about that in terms of the portfolio, are there different paths to growth in the companies that you're seeing or perhaps even new companies that you're thinking about for the portfolio in the future?

**JM**: Yeah. So as you say, when you look at the history of the strategy, there's a huge variability in terms of the path to achieving five times and then beyond potentially, something like Tesla did their first five times upside within fairly swift order after we made the initial purchase, whereas businesses like Hermes and Kering have taken a much longer path to get there. And we don't mind that. We think that's what the breadth of the portfolio is all about. And when we look at the current situation, again, I think you can see different trajectories of growth within the portfolio.

So that would be one group I would classify as I guess being relatively immune to all the changes that are going on in the world. There's just a strong underlying secular trend that's allowing them to grow quite steadily over longer periods of time.

**TEM**: In spite of a potentially bad economic situation.

**JM**: Yeah, exactly. So Dexcom would be a perfect example of that. The continuous glucose monitor business. And that sadly just plays into the trend of increasing number of diabetics due to dietary issues. They're still very early in terms of penetrating overall sufferers of diabetes and they're going internationally as well. So that's a business that is steadily churning out good high levels of growth for us.

Second category I would highlight would be businesses that are growing nicely, but where you could actually say, the current economic tribulations probably actually increase the value of their services to potential customers.

**TEM**: That's interesting. What would you put in that category?

**JM**: So the Trade Desk would probably be one that I would highlight there. So the advertising market in general is somewhat under pressure given weaker economic conditions. And for many advertisers, it's become much more expensive to acquire new customers in recent years.

**TEM**: Right.

**JM**: And it has become harder to do so after Apple introduced their new privacy efforts, which make it harder for advertisers to really hone in on who they want to get to. So as that's been going on, the Trade Desk has been really refining and building out its platform that allows advertisers to really target accurately the types of potential buyers for products across lots of different products like connected TVs and mobile devices. And that's allowing the Trade Desk to grow really quite rapidly because companies are hyper focused on getting efficiency and bang for their buck with their advertising spend.

**TEM**: I was going to say bang for your buck.

**JM**: Yeah. So that's the second category that I would characterise. There's probably a third group which are businesses that have suffered from a bit of a Covid hangover and have spent some time really sorting out some of the overbuild that went on or particular issues that they've had as a result of that dramatic period of growth.

Amazon would be in there. But a more recent example is probably Shopify, where their actual core business of providing digital services to smaller retailers, trying to raise their profile across lots of different selling platforms has been growing quite nicely.

**TEM**: And have a huge tailwind during the pandemic, during Covid.

**JM**: Yeah. And growth has slowed a little bit, but I think the core business is still capable of really quite nice long term growth rates, but there's been a bit of a distraction going on as the decision to start rolling out physical distribution and logistics, which the market was pretty upset with and we were a bit worried that it was a bit of a distraction from the core low capital intensive business that we'd seen previously. So, we're quite highly evaluate management's fairly swift decision just in the most recent quarter to roll back on that and actually divest their initial logistics assets and focus just on outsourcing that in the future. So, we think there's a group of businesses like that that have dealt with some of their problems and are now well poised to deliver good levels of growth over the next three to five years.

**TEM**: So that's interesting. Supporting companies through these periods and seeing through sort of the lumpy bits that they have. Troubles.

**JM**: Yeah. When you still think there's an attractive big opportunity to go for it in the longer term.

**TEM**: So, we talked about the holdings in the portfolio and some of the exciting developments there. Anything new, new buys, actually what are you most excited about generally, what is on the horizon?

**JM**: Yeah, so this is an area that I'm really pleased with, because I guess one of the dangers after a really exciting, yet tough year last year is that everyone on our team sort of goes within their shells a bit and is less alert and optimistic to the opportunities that are out there. That would have been a real danger.

But when I look at the flavour of some of the new buys in the last six months, I'm really quite excited and reassured that we're continuing to invest in the sort of early stage businesses that could be these outlier returns. So, at the start of the year, we had the investment in Mercado Libre, the leading Latin American e-commerce business, and we think the efforts that they've made to really solve the bottlenecks in that part of the world by building their own digital payments business and their own delivery logistics business to solve that challenge, that gives them a huge competitive advantage over other players in that market.

Likewise, the investment in Samsara is really great, I think because the Internet of Things is something we've sort of long talked about and hoped that there would be opportunities within that field. But it's great to see tangible businesses emerging in that field. So Samsara allows companies operating in more traditional areas of the economy that haven't had much digitisation previously by providing them with sensor technology and then an ability to monitor the efficiency and safety of their vehicles, their machinery, etc. It's allowing them to see really dramatic improvements in the underlying efficiency of their business.

**TEM**: So their physical operations, which is not something we've really been exposed to before.

**JM**: Yeah, but then this is the software layer that sits on top and provides insights. So it's not getting involved in the grubby, dirty stuff, but it's in those sectors of the economy, which is quite exciting.

And then lastly, in the most recent quarter I'd highlight the new purchase of Joby, the aerial taxi business, which sounds quite sci fi and is definitely not the sort of thing that the market is interested in at the moment.

**TEM**: I can imagine, yes.

**JM**: And this is a business that is still relatively early stage. So a smaller position makes sense, a smaller starting position makes sense, but it's an area that we've been following for a while. So Joby, we actually invested in for some other clients when it was still a private company.

**TEM**: Okay.

**JM**: And we've been monitoring it and other players in the industry for some time now because we think there will be very real demand for this product when it becomes a public service. So, in particular, we're thinking the initial application will be in areas where there are high levels of congestion and people are willing to pay to avoid that. So, the classic example given is if you need to get from a downtown office to an airport in double quick time and don't want to sit in traffic for…

**TEM**: Trying to get to Kennedy Airport in New York, from downtown.

**JM**: So we're pleased with the progress that this business is making. And we think the skills that they have and the partners that they've chosen, people like the US military are trialling some applications, but also an existing airline is an investor who can help them in terms of the approval process to get certified for taking members of the public in these services.

And so, we think there are really positive steps along that road. So, another quite exciting business and like I say, these businesses feel like true LTGG companies in that they have the potential for that outlier return.

**TEM**: So, we've talked a little bit about the holdings within the portfolio, the companies, and that sounds really exciting. Is there any sort of overall picture of the portfolio that you're excited about? Things, themes, things that you're thinking about?

**JM**: Yeah. So in addition to the flavour of new buys, which really excites me when I look at the portfolio overall, I think it's characterized by two strong trends. One would be, this is a very resilient portfolio despite the types of high growth that you can see across the portfolio

**TEM**: The resilience in terms of...

**JM**: Yes, on the balance sheet site side of things.

**TEM**: Yeah, financial resilience. And cultural probably.

**JM**: Yes, indeed, adaptability is as important as well as the balance sheet side of things where we think our holdings are really very solid, particularly when you compare some of the measures to the market as a whole. Where I think we are going to see some signs of stress and issues for broader companies across the market.

And then so to look into the future as we do. The world is changing in so many different ways. You need to be investing and adapting, as I said, for the new challenges and opportunities that are going to come. And when we look at our portfolio as a whole in terms of R&D spend as a percentage of revenues, it's hugely superior to the level that companies in the market as a whole.

**TEM**: To the benchmark, absolutely

**JM**: And that gives me confidence that our companies are going to be the ones that are shaping and are prepared for what's coming down the line over the next five to ten years.

**TEM**: I think that's really exciting as well because if we look back and we see some of the companies that are, as we've been talking about, adapting to this new environment and companies that were sowing the seeds for their progress like an NVIDIA, like an Amazon, like a Dexcom, things that we've owned, even a Moderna that we've known for a long time, just to see them sort of reaping the rewards of the early investment is really exciting.

So I think this is an exciting time for Long Term Global Growth. I know it's been a rocky road for clients over the last couple of years, but hopefully we're seeing a little bit of light in that. And I'd really like to thank you, John, for giving us an update on this quarter's performance.

**JM**: Thank you.

**TEM**: Thank you. And thanks, everyone for tuning in.

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

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Long Term Global Composite | 0.13 | 56.4 | 61.7 | -48.9 | 24.1 |
| MSCI ACWI | 6.3 | 2.6 | 39.9 | -15.4 | 17.1 |

**Annualised returns to 30 June 2023 (net %)**

| | 1 year | 5 years | 10 years |
|---|---|---|---|
| Long Term Global Composite | 24.2 | 9.9 | 15.9 |
| MSCI ACWI | 17.1 | 8.6 | 9.3 |

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.**

Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

**Risk factors**
The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, but is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned.

All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

The images used in this communication are for illustrative purposes only.

BAILLIE GIFFORD



0723 LTGG Q2 update
48702 10030561

**Important information**
Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Persons resident or domiciled outside the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

**Financial intermediaries**
This communication is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

**Europe**
Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018. Baillie Gifford Investment Management (Europe) Limited is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. Baillie Gifford Investment Management (Europe) Limited is also authorised in accordance with Regulation 7 of the AIFM Regulations, to provide management of portfolios of investments, including Individual Portfolio Management ('IPM') and Non-Core Services. Baillie Gifford Investment Management (Europe) Limited has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. Through passporting it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions ("FinIA"). The representative office is authorised by the Swiss Financial Market Supervisory Authority (FINMA). The representative office does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

BAILLIE GIFFORD



0723 LTGG Q2 update
48702 10030561

**Hong Kong**
Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 and a Type 2 license from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Telephone +852 3756 5700.

**South Korea**
Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

**Japan**
Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

**Australia**
Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a "wholesale client" within the meaning of section 761G of the Corporations Act 2001 (Cth) ("Corporations Act"). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this material be made available to a "retail client" within the meaning of section 761G of the Corporations Act.

This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

**North America**
Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

**South Africa**
Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

**Israel**
Baillie Gifford Overseas is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This material is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

BAILLIE GIFFORD