HEALTH INNOVATION Q2 INVESTMENT UPDATE

Investment specialist Diana Philip and investment manager Rose Nguyen give an update on the Health Innovation strategy covering Q2 2023.

Diana Philip (DP): Hello and welcome to the Q2 2023 update for the Baillie Gifford Health Innovation Strategy. My name is Diana Philip and I am one of the investment specialists on the Health Innovation Team, and I am joined by Rose Nguyen, who is one of the three decision makers on the Health Innovation Strategy.

Now, as a reminder, Baillie Gifford Health Innovation Team believes that healthcare will undergo monumental change over the next several decades. And this is really driven by the convergence of technologies into myriad fields of human health. And this is a strategy that is really seeking to invest in those companies that are at the very heart of this innovative revolution. This isn't just another healthcare sector strategy. This is a strategy that is index agnostic. It is very concentrated and we are seeking to invest in those companies that are truly disruptive, transformative and delivering real change and improvements for patient outcomes.

Over the course of the next 10 minutes or so, Rose and I would like to give you an update on the performance of the strategy over the course of the recent quarter. We'd also love to talk to you about the activity within the team, both in terms of investment trips, but also changes to the portfolio over the course of the last three months.

So, to kick off Rose, I think it's important to talk about performance. We, of course, have an investment horizon of five years and beyond, but performance has been weaker over the course of the past quarter. It would be really helpful if you could touch on why this has been the case. It's really interesting to note that operational progress, by and large, continues to be very strong for the portfolio. So, what have been the key reasons for the underperformance over the course of the quarter?

Rose Nguyen (RN): Over the past quarter, the capital market conditions continue to remain challenging and the funding environment is still very tough for many early stage companies such as biotechs. We also witnessed the collapse of Silicon Valley Bank and the ramifications of that is still working its way through the industry. So, we think that the healthcare sector as a whole is being disproportionately punished by the market. That has weighed negatively on the strategy's returns over the quarter.

However, we are very encouraged by the underlying operational progress and resilience of many companies that we invest in for the portfolio. And in fact, many companies are taking advantage of this downturn in the capital market to further invest in their growth strategies to pull ahead of competitors. There's a saying that the best companies are often born out of down markets, and we believe that this is still the case.

For example, argenx, which is a Belgian biotech company and one of our top holdings, is having great success with the launch of its first drug that is addressing a rare autoimmune condition. And the company is using that strength to invest heavily in its research and development (R&D) pipeline to expand the indications of that drug to many other autoimmune diseases. So that is just one example of a company in our portfolio that is continuing to march ahead and delivering great operational performance.

DP: Thanks. And it's helpful to have that context about the overall market environment and also the progress that we're seeing within the individual holdings. But if we take the portfolio as a whole, are there any names in particular that we are concerned about that maybe have detracted more than others over the course of the quarter?

RN: So, over this quarter, Moderna is a detractor to the performance of the portfolio and we think that, you know, the market continues to fixate on the uncertainty of its Covid-19 vaccine revenues and as a result, its share price has been very volatile over the past few months or so.

However, if you look at the pipeline of Moderna, there are over 40 programmes in development and only a very small number are purely related to Covid-19. We believe that the greatest value of this business lie beyond Covid-19, and it is about the potential of its messenger RNA platform and what that can deliver over the next decade or so. We continue to believe that messenger RNA can become one of the biggest drug classes in the future. Moderna has proven that its platform is highly scalable across many infectious diseases. Now, with the success of its flu and RSV vaccines, but what’s also really exciting is the early signs of success that messenger RNA vaccine is having in cancer. So, the company is scaling very rapidly, its personalized cancer vaccine franchise as well as its rare disease franchise, which we are very excited about.

So, if you take a step back, you can see that the company is firing on all cylinders despite the weakened share price performance in the short term and we are very enthusiastic about the future for the business.

DP: Thanks. It's so reassuring to hear the conviction that the team still has in Moderna, given the recent share price weakness and given the fact that it's still one of the largest holdings in the portfolio.

I'm just curious to know if the recent changed environment has led you to make any adjustments to the portfolio, either in terms of additions or complete sales?

RN: In this quarter we completely exited our holding in PhenomeX, which is a US technology company that is bringing new single-cell screening technologies to the field of health care. The company has a lot of potential with these technologies. However, we have concerns about its management's ability to execute as well as the company's weak balance sheet, which we think puts itself in quite a vulnerable position, especially in this environment of increasing interest rates and a tough funding environment. So that was the reason why we completely sold our position for all clients.

Having said that, we think that this difficult environment is also creating many attractive investment opportunities where growth might be mispriced by the market. We have quite a rich pipeline of new ideas that we are working through within the team and there are also some existing holdings in the portfolio where our conviction is strengthening and it's likely that we will be looking to add to these names over the few coming months.

DP: Great. And I know that we have this very rich pipeline of ideas. The team have been incredibly busy, both in terms of getting out on the road, seeing existing holdings, but also researching new ideas. Are there any highlights from some of the recent trips that you would like to share with us today?

RN: We have been quite busy this period. As many members of the team have been on several trips to the US and different parts of Europe to meet with, existing holdings as well as new companies.

I think what's really important to highlight is that the pace of innovations and the pace of technological progress we are observing is still increasing very rapidly across different subsectors of healthcare, from the new gene sequencing methods to cancer screening using blood test, for example. We are seeing so much underlying progress within these sectors. So, I think that has been really helpful, you know, just going out there, meeting with lots of companies and hearing the stories from, you know, the founders and the visionary management teams.

One of the areas that we as a team are quite excited about is the expanding applications of synthetic biology into healthcare. So synthetic biology is the design and the engineering of new biological systems to treat diseases or to develop new industrial products. And we think that this field is really coming of age, and that is thanks to the convergence of different technologies like AI, data, computing, as well as many new gene editing and gene sequencing techniques.

So, this is an area that we are going to keep a very close eye on and we'll work through some of the new names, such as Twist Biosciences and Ginkgo Bioworks, to see whether they are applicable for the strategy.

DP: Potential new names, so not put in the portfolio yet, but something we're researching further.

RN: Yes, exactly.

DP: Great. Well, I think that that's a really good place to end this, Rose. Thank you. It's so wonderful to hear the palpable optimism of you and the team, the really rich pipeline of ideas that we're working through, but also really reassuring that in this changed macro environment, the pace of innovation isn't slowing and the operational progress that we're seeing within the portfolio continues. And I think that's a really great place to end this.

BAILLIE GIFFORD

Thank you so much for listening and we look forward to discussing some of our exciting new ideas next quarter.

0723 Health Innovation Q2 update
48902 10030585

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

	2019	2020	2021	2022	2023
Health Innovation Composite	N/A	40.4	58.2	-48.3	5.2
MSCI ACWI	N/A	2.6	39.9	-15.4	17.1

Annualised returns to 30 June 2023 (net %)

	1 year	3 years	Since inception* p.a.
Health Innovation Composite	5.2	-4.9	7.0
MSCI ACWI	17.1	11.5	10.1

*Inception date: 31 October 2018

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

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.

0723 Health Innovation Q2 update
48902 10030585

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.

BAILLIE GIFFORD

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.