Baillie Gifford™

US Equity Growth
Q1 investment update

April 2025

Investment manager Kirsty Gibson and investment specialist Phil Rae give an update on the US Equity Growth Strategy covering Q1 2025.

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

Phil Rae (PR): Hello, and thank you for tuning in to this quarterly video update on our US Equity Growth Strategy. I'm Phil Rae, I'm an investment specialist on our US Growth Team, and I'm pleased to be joined today by Kirsty Gibson. Kirsty is one of the four decision makers and portfolio managers on our US Equity Growth Strategy.

We are clearly facing a period of disruption and change in the US, and equities have come under pressure. We've seen volatility rise in recent weeks, and that's largely been a result of policy change from the new Trump administration, and more specifically, those around tariffs.

And so we've seen the American exceptionalism narrative that took hold last year begin to falter. But I'd just like to take this opportunity to remind those of you watching that this portfolio is a very different looking one to that of the index or the broader market.

We're not investing in the US index or the US economy as a whole. This portfolio aims to buy and hold America's most exceptional growth companies. These are companies going after big opportunities. These are companies that we think have special cultures and sustainable competitive advantages that improves the odds of their success.

These are companies that we think are well positioned to not only navigate periods of disruption and change, but to actually take advantage of them. So with that, I will turn to Kirsty. Kirsty, it's been a turbulent period, to say the least, in America and in the US stock market. How are you and the team thinking about this, and how is it impacting the portfolio at the moment?

Kirsty Gibson (KG): Yeah, I mean, as you say, I think it's fair to say that it's been a volatile period. And a lot of that volatility has come from the unpredictability of the Trump administration. I think it's also fair to say that the range of outcomes now are probably wider than they have been before. But it's also worth reiterating how early we are in some of these changes.

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This administration has only been in place for around about two months, so we don't want to jump to too many certain conclusions. We therefore need to focus our time on the areas that we believe we have an edge in analysing.

So one of those would be the structural growth drivers that we believe will drive market returns over the next five-to-10-years. That could be the falling cost of batteries, which is driving electric vehicle adoption. It's driving a move towards more stationary storage. It could be the falling cost of inferencing, which is driving new use cases for artificial intelligence and potentially, on a five-to-10-year view, opening up use cases that we can't even imagine today.

We also can spend our time, and you alluded to this earlier, focusing on the areas or the pillars that we believe make up exceptional growth businesses. So focusing on those market opportunities over five-to-10-years, focusing on those competitive advantages and the cultures of the businesses that we invest in.

Spending our time looking at those businesses that we believe are resilient to navigate the short term, being able to handle the changes in administration, the geopolitical aspects of their business models. But also those that have the ability to adapt to navigate the long run, to be able to handle those technological changes that are happening, the advent of AI, for example, but also those cultural changes that may be happening within a nation over a five-to-10-year period.

I think it's also really important to acknowledge the fact that volatility swings in both directions and that we were able to take advantage of what has become affectionately known as the Trump bump after he was elected in November. We used that as an opportunity to take money out of businesses where we felt that the valuations had become more stretched.

So we took money out of Tesla in November and December. We took [a] percentage out of the Trade Desk, which is a programmatic advertising platform, in January. And we also continued a trend that has been happening over the past year, which is taking some more money off the table in NVIDIA.

PR: Good. So, despite all the noise out there, the market volatility we are sticking to the investment process and making changes where we see appropriate for clients. I guess maybe as well as those sells that you just touched on, maybe you could just touch on where that money has been put in terms of new buys and additions.

KG: Absolutely. So we bought a new holding in DraftKings. So DraftKings is an online sports betting and iGaming company in the US. Now, it might be quite difficult for us to think about this being based in the UK, where something like betting has been established for quite a long period of time. But the idea of online sports betting is a relatively new phenomenon in the US. It's only relatively recently that gambling has been allowed outside a very specific number of states.

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So at the moment, DraftKings covers 25 states plus Washington DC. That gives them access to around about 49 per cent of the population. So they have an opportunity to expand within that 49 per cent, but they also have the opportunity to grow as sports betting or betting more generally is rolled out to more states.

iGaming, they're even earlier. So, they're in about five states at the moment, and that represents around about 11 per cent of the population. And our hypothesis here is that if you look at most other geographies worldwide, betting has tended to evolve into a very profitable duopoly online. And that's our hypothesis that DraftKings will be one of those two players in the US.

We've also taken a holding in a digital and software service consultancy called Globant. And Globant helps companies to design and build new tools. Now, the emergence of artificial intelligence is obviously a great opportunity for companies to do new things and also improve their efficiency.

But we have to remember that there are many businesses worldwide that just don't have the necessary skill sets to even know what they can do with these potential future tools. And so what Globant is offering is some hand-holding to help you to both design new tools to decide what you could use some tools for, but also then help companies in the creation of those tools.

And then we added to an existing holding in Cloudflare. So the emergence of these new thinking artificial intelligence models is moving the industry from training to placing much more emphasis on inference.

And Cloudflare is very well positioned here because a lot of that inferencing is done at the edge. And what I mean by the edge is I just mean physically closer to where you or I are. And Cloudflare has a lot of that edge infrastructure already in place. So its advantage comes from the fact that there are more people looking, more engineers looking to build on top of that edge infrastructure.

And that's very important because being closer to individuals fundamentally means that things like queries, if you or I were to ask ChatGPT a question, we get a response a lot quicker. And we know that people are very impatient to ensure that those responses are going to be quick in future.

PR: Okay, so using our active approach to take money out, some of those big winners of the past decade, the likes of NVIDIA and Tesla, you mentioned, and find new exceptional growth companies that we think have very durable, exciting opportunities ahead of them.

One of the things I noticed right now is that top-down, this noise that's overwhelming markets is becoming increasingly pessimistic. But actually, when we've been meeting with companies and management teams, what we're hearing from them is they remain focused on their missions, they remain very optimistic about their long-term futures.

Maybe you could just give our clients a sense of some of that and why we remain cautiously optimistic despite what is becoming a more challenging backdrop for the US.

KG: I mean, as you mentioned earlier, we're not invested in the US as a whole. And so actually, volatility can be advantageous to an active investor because you can be a lot more nimble.

Now, it's very true that the market remains dominated by a few very big companies. But we believe that that will broaden out, and we are looking at those businesses that we believe could be those large companies of the future, like something like a DraftKings or a Globant, or even names that we've added to or bought over the past year, like Sweetgreen, the salad chain, or Shark Ninja, which creates appliances, or Aurora, which is a self-driving trucking company.

These are all businesses that you can't necessarily get access to when you just buy the S&P or the US economy as a whole. This is a period of transition, and those companies which are resilient and which are adaptable, which we often believe are founder-run, really do have an opportunity to thrive, because they are able to navigate to that changing environment.

And ultimately, as you say, these businesses are just spending an awful lot more time focused on the opportunity in front of them and how to invest in that growth opportunity going forward than they are on the sort of short-term noise and the worries around tariffs.

PR: Yeah, thanks, Kirsty. And thank you to those of you who've chosen to tune in and watch this quarterly update video. I hope you get a sense that despite the sort of negativity or the increasingly pessimistic noise from the top down, that actually what we're seeing and hearing from companies remains very exciting.

These are companies that are highly adaptable, that are resilient, and able to navigate these periods of change and disruption and actually take advantage of them over the very long term. So with that, thank you for tuning in, and we'll look forward to speaking to you again next quarter.

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US Equity Growth

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

	2021	2022	2023	2024	2025
US Growth Composite	144.2	-28.2	-29.3	35.2	8.6
S&P 500 Index	56.4	15.6	-7.7	29.9	8.3

Annualised returns to 31 March 2025 (net%)

	1 year	5 years	10 years
US Growth Composite	8.6	12.7	13.7
S&P 500 Index	8.3	18.6	12.5

Source: Revolution, S&P. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

Past performance is not a guide to future returns.

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