BAILLIE GIFFORD US GROWTH TRUST PLC – MANAGER INSIGHTS

Gary Robinson, co-manager of the Baillie Gifford US Growth Trust, provides an update on recent performance and explains why the Trust continues to focus on fundamentals in uncertain times.

The value of your investment and any income from it is not guaranteed and may go down as well as up and as a result, your capital may be at risk.

This film was produced and approved in August 2022 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

Further details of the risks associated with investing in the Trust, including a Key Information Document and how charges are applied, can be found in the Trust specific pages at bailliegifford.com, or by calling Baillie Gifford on 0800 917 2112.

Our aim with the US Growth Trust is to identify the exceptional growth companies in America and then own them over the long term. Our investment time horizon is five years plus. We remain focused on this time horizon, but the last year has been challenging. Share prices have been weak across the portfolio and there is a lot of uncertainty right now with inflation and talk of a recession.

We're still confident in our philosophy and in the businesses that we own in the trust. In aggregate these businesses are performing well operationally. Now, a weaker economic backdrop could cause some short-term volatility, but we believe the most important driver of performance for these stocks will be their long-term growth opportunities. That's because the data tells us that, over the long-term, share prices follow fundamentals. So if we get the fundamental analysis right, then we can be patient and wait for share prices to eventually follow.

One example of a stock where the share price and fundamentals have become dislocated is Shopify. Shopify sells tools to enable merchants to run their businesses online and offline. It's one of the largest holdings in the trust. The shares have been very weak over the last year. They are down over two-thirds from peak, and are trading at a similar price to where they were pre-pandemic. But the scale of the business has been transformed over the last few years. Shopify has grown its gross merchandise value and revenues three-fold since the start of the pandemic. And this scale has helped to further reinforce the company's competitive advantage and has enabled it to sign partnerships with some of the biggest platforms in the world like Facebook, Google, and TikTok. So, Shopify is stronger than ever, despite the recent weak share price.

There are many examples like this in the portfolio where the share price and the fundamentals have been moving in opposite directions. It's natural to feel more downbeat when share prices are falling but rationally, so long as fundamentals are strong, we should be more optimistic. That's because this combination of weak share prices and strong fundamentals increases the odds of higher future returns.

New Transactions and Portfolio Update

Moving on to transactions. Share price volatility is inevitable in investing, it's what you do in response that really matters. It's easy to be long-term when prices are going up and to the right. But it's the challenging periods like the one we're in now that are a real test of long termism.

We're still doing what we've always done – we're taking a patient approach and we're sticking to our philosophy and process. What we're looking for are the exceptional growth companies that have the potential to drive stock market returns for the next decade. And we think most of the existing holdings in the portfolio fall into this category, so we haven't made major changes to the portfolio. Turnover remains low and is consistent with our five year plus time horizon.

In terms of public markets, over the course of the year we bought new holdings in electric car company Rivian, language learning app Duolingo, and in a company that makes cloud infrastructure management software called HashiCorp.

We sold real estate company Zillow because our hypothesis didn't play out. And we also sold used car retailer Vroom, medical devices company Glaukos, and ride sharing company Lyft all on concerns over competition.

In the private space, we took seven new holdings in the year. There are descriptions of each of these in the annual report. These holdings cut across a wide range of sectors from genetic testing to machine learning to retail and chemicals. The breadth of business models and market opportunities that these companies address is indicative of a widening opportunity set. The new technologies of this wave of innovation, they were initially confined to a small collection of sectors in the economy, but they are broadening out and they are starting to impact sectors that haven't seen much change historically. This is an exciting backdrop for growth investors. We've spoken about this hypothesis since launch but the evidence for it is now mounting.

One of the reasons why we launched this investment trust is because we wanted to cast our net wider, across both the public and the private opportunity set. Over the last four years, we've made good progress and have invested in some very exciting private companies ranging from payments company Stripe, to rocket company SpaceX, to communications company Discord. Unlike in public markets, the best private companies get to pick their shareholders, so reputation is critical. And we've been delighted by the quality of the private companies we've been able to gain access to. Private companies now make up a significant proportion of the portfolio and at the end of the reporting period they were 36 per cent of total assets.

Outlook

The last few years have been tough, but we are optimistic about the future. We are facing some short-term headwinds, but we think we'll come through these as we've always done.

The structural forces of change – from Moore's Law in semiconductors, to Wright's Law in clean energy and Flatley's Law in healthcare, are continuing. Now, the path to abundance won't be smooth, but we're convinced that the innovative growth companies that have got the potential to take us there will be the outliers that drive stock markets for the next decade.

We understand though that weak performance is challenging for shareholders to hold through, no matter how long term you are, but we can assure you that we remain confident in, and committed to, our approach. We are hugely appreciative of your ongoing support.

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Past performance

Annualised total returns to 30 June each year (net %)

	2019	**2020**	**2021**	**2022**
Baillie Gifford US Growth Trust PLC	13.2	51.4	66.3	-57.5
S&P 500 TR GBP	14.5	10.7	25.9	1.7

Source: Morningstar, share price, total return. Sterling.

The Baillie Gifford US Growth Trust PLC was launched on 23 March 2018. Performance information is available from this date.
Past performance is not a guide to future returns.

Important information

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The Trust invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.

The Trust has a significant investment in private companies. The Trust's risk could be increased as these assets may be more difficult to sell, so changes in their prices may be greater.

The Trust's exposure to a single market and currency may increase risk.

The Trust is listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority.

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