
INTERNATIONAL GROWTH MANAGER UPDATE

Nick Thomas and Christel Brodie, investment specialists on the International Growth Team, give an update on the activity of the portfolio over the last quarter, covering portfolio positioning, transactions and pipeline ideas.

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

This film was produced and approved in May 2021 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

Christel Brodie: Hello everyone. Welcome to this short video on our International Growth strategy. I'm Christel Brodie and I'm joined by Nick Thomas. Today we will provide an update on the portfolio positioning and our trading activity during the first quarter. We will also share with you what new ideas and themes we have been analysing.

Let's start with an update on the portfolio positioning. In our previous video, we mentioned our performance over three years which was due to the portfolio's exposure to online, its weighting on Chinese growth companies, and our lack of exposure to old economy stocks.

However, during the first quarter of this year, we faced some sector rotation in stock markets. Many growth companies in the portfolio witnessed some pull back in their share prices, notably the ecommerce platforms, despite continuing to perform well operationally.

In this context, our portfolio fell during Q1 and underperformed its benchmark. Importantly, it is still outperforming on a long-term basis.

We firmly believe that the sectors that struggled in 2020 and rebounded in Q1, like oil and gas, banks and even offline retailers, are on a declining structural trend and the pressure of the disruption they face was accelerated by the pandemic.

With that in mind, we did not make investment decisions based on these short-term price movements. Instead, we carried on implementing our growth-focused investment strategy by buying and holding shares in companies that we believe will benefit from long-term structural trends.

Let's now discuss our trading activity. During the first quarter, we continued upgrading the quality of the portfolio. We bought 2 new holdings, Curevac and Vestas. Curevac is a German biotech company which uses mRNA technology to develop a Covid vaccine but also other therapeutic solutions.

As for Vestas, it is the world's largest manufacturer of onshore wind turbines with a presence in offshore wind.



We also added to our existing positions in Delivery Hero, an operator of online food takeaways, and in Argenx, a biotech business which develops antibody-based drugs by participating in both their capital raising.

We funded these new news buys and additions by selling two holdings in the portfolio, EssilorLuxottica and Rolls Royce, both for fundamental reasons. EssilorLuxottica is the world leader in the design and manufacture of ophthalmic lenses. We noticed a deterioration in its culture which we believe will likely affect its long-term success.

As for Rolls Royce, the British Engineering company which makes large engines for wide body passenger planes, it did face some heavy headwinds due to the pandemic as it was attempting to ramp up production and restructure its corporate structure. Having been loyal shareholders for many years, we eventually felt that the long-term picture no longer merited an investment in a growth portfolio.

I'm now going to hand over the Nick [Thomas] to talk about our research agenda and the themes we are excited about.

Nick Thomas: Thanks Christel. Despite the pandemic conditions and most of us continuing to work from home, our research process is functioning well. We are getting good access to management teams, and we are producing and discussing research notes in our investment team at a good pace, typically two or three per week.

As usual our work splits between maintenance research on existing holdings, and our quest for new ideas.

Some examples of our work on current holdings - we discussed the positive developments of Afterpay, a company we bought last year, that offers buy-now-pay-later facilities to its customers. Afterpay is one of several fintech companies disrupting the credit card and payment industry.

We also looked at several of the competitors to Delivery Hero, the food delivery company that we hold. These include Just Eat Takeaway, and Deliveroo, the company that IPOd during the quarter. We concluded that Delivery Hero's end markets of densely populated cities in more rapidly growing countries gave it the best chance of success, so we added to that holding as Christel mentioned.

We also drew together some thoughts from a series of CEO-level conversations with our holdings, including L'Oreal, ASML, Nidec and Stellantis (as the newly merged Fiat Chrysler/Peugeot auto-company is known), to improve our framework of how to analyse corporate culture. We concluded that there are common features between strong corporate cultures, such as long termism and creativity. We also learnt that culture needs to adapt, and to be appropriate for the challenges facing a company. It is much more than saying 'this company has a bad culture' or 'this company has a good culture'.

We've continued to dig deeper into the supply chain of the renewables industry, given the huge wave of investment that is going to be needed to reach the emissions reductions targets that so many countries are now signing up to. Our work here included research on a solar inverter manufacturer, a large battery storage company, a supplier of power semiconductors to the EV industry, and the leading onshore wind turbine manufacturer Vestas, which we have bought, as Christel mentioned.



Our outlook remains a positive one. At a high level, we believe in the acceleration of disruption, powered by technological advance and human ingenuity. We are encouraged by the evidence that more industries are being heavily affected by these forces. Some of them are huge and seem to have been quite slow moving until now - industries like finance, energy and healthcare. Therefore they offer a great prize to successful innovators.

This general outlook helps to drive our research agenda. We anticipate that the portfolio's exposure to disruptive businesses in the financial sector, the health industry, or to the coming energy revolution, will rise if we are able to identify and analyse great companies within these themes. So to capture this new wave, and defend against the damage that will be done to incumbent companies, it is as important as ever for our clients to invest in growth stocks.

To conclude, despite the recent [sector] rotation in stock markets in the first quarter, we believe our portfolio is well positioned to benefit from long-term structural trends and an acceleration of disruption in many sectors of the economy.

During the first quarter, we added some new growth holdings to our portfolio. We also carried on analysing companies within themes that excite us for the long run.

Thank you very much for your time and if you have any questions, please reach out to your client contact or visit our website where there is much more information about our International Growth strategy.

Annual Discrete Performance to 30 June Each Year (%)

	2017	2018	2019	2020	2021
Baillie Gifford International Growth Composite	30.8	24.2	-3.3	30.5	44.1
MSCI AC World ex US	20.8	7.4	2.4	-4.4	36.3

Annualised returns to 30 June 2021 (%)

	1 Year	5 Years	10 Years
Baillie Gifford International Growth Composite	44.1	24.2	12.6
MSCI AC World ex US	36.3	11.6	6.8

Source: Baillie Gifford & Co and relevant underlying index provider(s). USD.

Net of fees returns have been calculated by reducing the gross return by the highest annual management fee for the composite.

All investment strategies have the potential for profit and loss.

Past performance is not a guide to future returns.



International Growth New Buys and Complete Sales over the last 12 months (to end of June 2021)

New Buys	Complete Sales
Afterpay	BASF
Coupang	Elekta
Curevac N.V.	EssilorLuxottica
Full Truck Alliance	Faurecia
Oatly	Pan Pacific International Holdings
Pinduoduo	Rocket Internet
TSMC	Rolls-Royce
Vestas	Softbank
Wuxi Biologics	Sysmex

Important Information

This recording contains information on investments which does not constitute independent investment research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA).

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

Any stock examples and images used in this article are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style.

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.

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.

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

MSCI Legal Notice

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.

