

The value of the trust's shares and any income from them can fall as well as rise. Capital is at risk. Past performance is not a guide to future returns.

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Hello and welcome to this programme from Baillie Gifford, the latest in a series of webinars where we talk to the managers of the business' different investment trusts. Today, we're talking to Chris Davies, comanager of the Baillie Gifford European Growth Trust. So welcome, Chris. Thank you for joining me today.

Thanks, Amy. Thanks for having me.

So, the title of this webinar is 'Unsung Heroes and Turning Points on the Forgotten Continent'. So, I'm excited to hear more about those opportunities. Let's begin. The European Growth Trust is filled with what you and the team believe to be some of the most dynamic growth companies in Europe. Now, do you think the holdings all share common characteristics in that regard?

Very much so. In fact, we look for a set of common characteristics across all of the companies that we analyse. The ones that we've invested in are the ones where we recognise these characteristics. So, one of those would be secular growth drivers. So, demand for products or services that these companies are providing that's growing. So, this is not a GDP type portfolio. So, if you look at the revenue growth of this portfolio over the past five years, it's above 10%. The index is at around 4%. We've got a diverse collection of secular growth drivers in there, from the proliferation of semiconductors to the pricing power of luxury brands. To companies that grow through acquisition, but there are plenty of others.

So that's a core tenet. Second would be the presence of competitive advantage. So, what do we mean by that? What we mean is that we're looking for companies that don't just grow over the long-term, companies that actually thrive over the long-term because they can do something that others simply can't or find it very difficult to copy. So that, in turn, allows companies to grow their profits disproportionately. Make excess returns on capital. So, what we're thinking about with competitive advantage really, is the durability. It's what you get when you invest over a long period of time, a business that has a competitive advantage is going to give you really superior returns.

So, if you look at ASML, for example, which is a Dutch lithography business which we invest in. It's right at the cutting edge of lithography of the whole semiconductor industry and its extreme ultraviolet lithography machines, no one can-

Just to clarify for our audience, to define lithography, if any one's unclear of what that process is.

So, it's basically where you use light to make patterns on silicon wafers and then those can be made into chips, which go into everything from smartphones to laptops to microphones and goodness knows what else. They have this really exceptional competitive advantage in this field as basically, the main innovator in the world. So, at the really extreme end, when you think of some of the new applications in AI and LLMs and so on, where you really do need lots of computing power, these guys are very, very important for helping to continue drive Moore's Law. When you look at the extreme ultraviolet lithography machines, which are really at the cutting edge, they basically have a ten-to-15-year lead on the competition.

So that's a pretty strong competitive advantage. When you look at the financial characteristics, they've grown about 18% over the last decade and their margins have expanded from the mid-20s into the mid-30s. They make fantastic returns on capital. Of course, it has a right to do so because it has this competitive advantage. So that's really the second thing that we see across all of the companies in our portfolio. The third thing that maybe is a bit more unique to us is what we call alignment. What I mean by alignment is that we are aligned as long-term investors with other stakeholders in the business. We're long-term, as you know. So, we like to be invested alongside families or founders or trusts or foundations who we know will be there in ten, 15, 20, maybe even 50 years' time.

We tend to think that that tilts the odds in our favour. So, one example would be Atlas Copco, which is a Swedish compressor business. We have held the shares at Baillie Gifford since the mid-1980s. They are backed by the Wallenberg family, which is one of Sweden's famous rich longstanding families and they've backed Atlas since the 19th Century. One of the other characteristics I think we look for here, is attractive financial characteristics. So again, when we look at the portfolio, we see businesses that generate these attractive returns on capital. That's really important for compounding, which Einstein famously described as the eighth wonder of the world.

When we look at our portfolio, the returns on invested capital, which is a really important metric that we use for judging how valuable growth is in these businesses, it's about 14%, which is pretty much double where the index is. Before I finish this very longwinded answer to what was quite a simple question, I'll also point out that the common factor, we think, across all these companies is we think

they're underpriced. We think that the market is getting something wrong about these businesses. Now, we have a rough rule of thumb in the European growth trust where we are looking to double our money over a five-year period. So that's what we think are the common characteristics across the portfolio companies that we hold today.

Many people would say we're coming out of the era of easy money, for which many growth businesses had relied on to grow market share and to get that competitive advantage, which you

talked about. So how do you separate the companies that have ridden that funding wave and those with those really solid fundamentals that you're going to be backing in the next decade?

It really is these points that I've just talked about. I guess it's getting the beyond the growth rates, to figure out how durable that growth is. That depends on the competitive position, who's running the show. How their incentivised. Financial characteristics. Plenty of companies can grow and I think we learnt that during that period where interest rates were very low and companies were able to secure capital quite easily. It's that growing sustainably and with attractive returns on capital over the long-term that I think is what we are really trying to find. Those fundamental strengths of companies are what you need to focus on.

Our experience teaches us that even in cases where you have a strong company, you might find yourself having to adopt the brace position every once in a while, because long-term gains often required an investor to ride out short-term share price volatility. So, Atlas Copco, for example, has compounded its earnings per share at 10% over the last 20 years, which is a pretty astonishing record. There have been at least five periods, five years during that period where earnings have fallen and several periods where the share price fell quite significantly. That's been the biggest returning stock in our European fund, which is the sister fund to the Baillie Gifford European Growth Trust.

So that's a great example of a company that has just lasted the distance. More recent examples, perhaps, to illustrate what we've learnt certainly during the last five years, would be perhaps, the food delivery companies that we invested in. Delivery Hero and Just Eat Takeaway, both of which we have sold. Neither of those businesses was able to make a profit during the course of the pandemic, which is unusual, given the demand for their services was-

Yes, nobody could leave the house.

Exactly. That they couldn't generate profits and generate attractive returns on capital in the best possible environment, I think was quite indicative and we probably should have sold them sooner for that reason. Contrast, those with Allegro, which is Poland's leading ecommerce website. That business has a dominant position. It's fought off numerous competitors, including Amazon. It's added a number of different products and services to its business, like payments and advertising. It's investing heavily in five additional countries outside of Poland. So that business has kept investing quite heavily and is actually making decent returns in doing so.

We think that it's got the staying power to keep doing that over the next five to ten years and possibly, even beyond. So, we're really trying to disaggregate which of the businesses here that are going to

be able to keep investing at attractive rates of return over the long-run versus those that we think really can't.

We hear a lot about western economies' debt overhang. The title here is 'The Forgotten Continent'. With so much debt in the system, not just in Europe, we're seeing it in the US as well. Can that be a barrier to growth? How does a company's pricing power come into that equation there?

We describe ourselves as bottom-up investors. What does that mean? It means that we start with the attractions of the company first. So, we don't really spend very much time at all talking about the broader macroeconomic picture. The beauty of focusing on companies that are driving or benefitting from secular growth, is that their growth rates can often be zigging, while the broader economy might actually be zagging. So maybe that just sets the scene briefly. When we look at the portfolio, pretty much every company here has a number one or number two position in what it does. To answer the question on pricing power specifically, pricing power as most people probably know, when you put your prices up and you get limited pushback from your customers, you have pricing power.

Now, companies with pricing power might be doing something extremely valuable for customers that others simply can't do. It might be that customers find it very expensive or disruptive to switch from one provider to another. Those are usually pretty good preconditions for pricing power. We think that we can see those sorts of conditions across most of our portfolio. Maybe to bring that to life with a few examples. Spotify, which probably doesn't need much introduction at all. Music is undermonetised. So, when you look at some analysis which UBS did quite recently on the global recorded music industry, what they pointed out was that revenues per capita are actually half what they were in 1999, adjusted for inflation.

Now, I'm not sure how many people watching this webinar have got Spotify accounts, but I think it's fairly clear that it provides an enormous amount of value for the amount of money people are paying for it. If you think back to when I was a kid and I was buying music. I'd have to buy the albums, I'd have to buy the singles, but I didn't have an infinite amount of money. So, I could only buy a handful and then I'd have to put the radio on and hope that my favourite song was going to pop up at some point. Spotify solved that problem and its added audio books and podcasts on top of that as well. Now, they've actually been putting up prices recently in some key markets, including the US and we've seen very limited impact on churn.

Now, why is that? The reason is, it's partly this point that they're adding incredible amounts of value for customers and they're really undercharging. It's also, if you think about the inertia that customers

have, all of your playlists, all of your favourite albums are all organised there. It's like your own personal musical organiser. It's going to be very, very difficult to switch. The switching costs are actually quite high. So that's one reason it has pricing power.

That's interesting in terms of how it's working for music, but if you look at TV streaming, it's quite a saturated market in that respect. So, Spotify, it's interesting that in music it's really cornered the market, but in TV and films, it's quite hard to justify raising your subscription.

The other oddity here, as well is actually that if you look at Spotify, it has pretty much most of the same music that Amazon Music has. It has most of the same music that Apple Music has. Which makes it more of a headscratcher, when they are able to put up prices and they don't see much churn. Our reasoning for that is this point about when I look at my phone, all the music I like to listen to is there. It's organised for me, but what Spotify also does is it knows you. It gets you and it gets a sense of what you like to listen to so it can recommend things to you much better. There were some interesting numbers which came out of Universal Music Group recently. Where they talked about their streaming business as actually not being that strong.

Now, I'm not sure whether what they were really saying was that they've not seen much strength from Apple and Amazon and some of the other players, but Spotify's numbers have been consistently really very impressive recently. That's interesting to us. I think that's telling us something about what they're doing that's adding a lot of value that's giving them pricing power and I think it's those points that I've talked about there. There're a few other examples I can give on pricing power as well. Let's take Schibsted. So, this is a Norwegian media business which dates back to the 19th Century. It's recently split up. So, it was originally a news business, newspapers.

More recently, it has become a pureplay online classifieds business. So, they made a big move back in the late 1990s early 2000s into the classifieds market. So essentially, taking classified ads from papers and magazines and putting them online. So very much the same sort of thing as Rightmove and Autotrader in the UK, for example. They own the dominant online classifieds business in Norway, which is called Finn. It has 90%-plus market share in real estate, in cars, in jobs. Pretty much all the main categories that we can think of. What's interesting there is that they've been putting up prices, particularly in their real estate business recently, having not really priced very much for quite a long period of time.

They can do that because they have the dominant market position. That's where all the eyeballs are, all of their users are using that app. So even if a competitor comes in and tries to get the estate agents onboard, putting their inventory there, it's going to be very difficult for them because they'd have to

attract all the eyeballs of your typical Norwegian, who actually spends most of their time looking at Finn. There's a great benefit of having all of these different categories in the same place. You've got to be careful with pricing power here. You can't just pull the lever and expect everything to be fine. You also have to add value to the customer. Back to the Spotify example. They're adding a lot of value for their users.

So, in Schibsted's case, with Finn when you're putting up prices, you always have to think about how you're adding value for customers. On the other hand, we've got some luxury businesses in the portfolio. So, let's take Ferrari, which we don't hold directly. We hold it via the holding company, Exor. So, it accounts for quite a bit proportion of Exor's asset value. Ferrari makes about 14 different models of car. The range models tend to be between €200,000 to €600,000, but their special series and Icona models tend to be a million euros plus. Maybe even up to 1.5 million. When you look at the cars they sold last year, about three-quarters of them were bought by people who already own a Ferrari. So, it's a club, it's like a cult almost. So that gives you tremendous pricing power as well.

So, a few different examples of pricing power, but I think the broader point here is that pricing power just gives you that opportunity to control your growth rate, perhaps, in a way that the macroeconomy might not allow.

I suppose, it goes back to that earlier point about the end of the easy money era. To sought the wheat from the chaff, you have to be providing a service that people want, otherwise you can't fund yourself. So, it has to be the best of, otherwise you can't operate.

Exactly. We've seen that with so many companies who've essentially been reliant on very cheap capital that have really struggled to continue investing in their business when the cost of capital has gone up. The beauty of being able to exert pricing power is that, as you say, you're able to generate more capital internally and use that to fund research, development, capex. You can keep improving what you're doing for customers and add more value over time. That's a beautiful flywheel effect.

When I was looking at what you're holding in the trust, there's quite a lot of holdings residing in the Netherlands. So, I was just keen to understand why? We've talked about ASML, which is a huge success story of course. There was a couple more in there, Topicus, an acquirer of software companies is the trust's top holding. Adyen, is a Dutch digital payment processing business which is growing at 25%, which is pretty impressive. So, is there something unique in Dutch culture which is bringing out such great entrepreneurial businesses?

It's a great question. I must admit that I don't have a great answer for it, but what we've learnt from Sweden might have some relevance here. They are both big overweights for the trust. We have very

big positions in Sweden and the Netherlands, but it's not because we've taken the top-down view on these countries, we think these are amazing countries. We have happened to have found a lot of great businesses there, which may actually be telling us that there is something about these countries that's quite special. There's a good book called 'Capital Returns' which I think was published by Marathon Asset Management and there's a great chapter in there called 'Northern Stars' where they talk about the Nordics.

Actually, it turns out that Sweden is one of the best performing stock markets of the 20th Century. That's something that chimes with us because when we look at some of our great successes in the European fund, which is, as I mentioned earlier, the sister fund in the trust, which has been running since the 1980s, a lot of them come from Sweden. Mentioned Atlas Copco earlier, it is the highest returning stock in the European fund. So, what is it about Sweden that has produced these special companies and what might that tell us about the Netherlands? There're a few things, I think. One is that there's a lot of long-term capital in Sweden. I mentioned the Wallenberg family, but there are lots of other families there.

Lots of family holding companies with a very long-term perspective that are willing to invest in companies and let them invest for the future. The level of English literacy is very good across both these markets. So that's quite good for recruitment, for sharing ideas, for cultural exchange. They're quite small markets. Sweden is, what? 10 million people. The Netherlands, maybe 17 million. What that means, I think, is that you exhaust your whole market much faster. If you want to keep growing, you've got to go abroad much, much sooner in your lifecycle than perhaps, a company that's operating in France or Germany. We've definitely seen that with Atlas Copco, which has got a tremendous global compressor business now in a way that it certainly wouldn't have had 50 years ago.

So, I think when you look at these factors in Sweden, you can kind of see some of them in the Netherlands as well. So, the two examples you mentioned, Topicus and Adyen. Let's look at the long-term ownership of both of those companies, for example. Topicus was spun out of Constellation software, which is a Canadian software company, but Constellation bought a business called Total Specific Solutions back in 2014, which was a Dutch company. It was buying these vertical market software companies, which are niche software companies. Think of software that you're using to run a hairdressing salon or a gym or a golfclub, that sort of thing. They started acquiring more of these companies in Europe and was then bought by Constellation.

The family behind TSS is still very much there. The Strichraeder [22:20] family represented by the CEO of Topicus, Robin van Poelje, but there's a long-term ownership story there. It's interesting when you read what the Strichraeder family say in the press, how they talk. They talk very much about being

long-term. Adyen is another good example where you've had two founders heavily involved since the company was founded back in 2006, but they're been involved in the payments business for much, much longer than that and they've stuck around. They've been long-term investors. So, I think when you start looking at the Netherlands and comparing it to Sweden, you can probably find that there's quite a few commonalities across those two markets which might go some way to explaining why we have these big overweights in those countries.

As you say, that long-term capital and you mentioned earlier, at some point you're going to have to adopt the brace position in holding those positions. They've weathered those storms and been patient, which you can see in the results. That moves us nicely on to the next question. I wanted to talk about the unlisted companies in the portfolio. It makes up around 10% of the portfolio at the moment, but you do have the option to increase that to 20% of the total trust. It's really quite an interesting time for private assets. We're hearing more about it in the mainstream media as it were. In the investment trust space, there is a perception of mispricing which is leading to the discount widening. What's your perception on this dynamic?

I think there's a few possible reasons. The discount, at the moment, is probably somewhere in the region of 14% to net asset value, which is quite wide. Certainly, in the context of our peers. I think there are a couple of possible reasons for that. 1) Is probably performance. We have had a tough period of underperformance recently. That was coming out of a period of extreme outperformance in 2020 and certainly, the first half of 2021. I think that's probably a factor. I think the other is, as you say, when people look at unlisted companies, we have five in our portfolio and we've tried to be very selective about the ones that we've gone for. There is some subjectivity around the valuation of these assets. Now, we tend to be very conservative.

We have very robust systems for valuing these companies, but because they don't have a market price in the way that our public investments do, there's always room for debate around those. Now, the bigger question here I think is, why bother? Why look at unlisted companies? Why put them in the portfolio? I think there's a few reasons. One is that we know that private companies generally have been staying unlisted for, perhaps, a bit longer and we want to be able to get access to these really special companies in Europe, as early as we can. So, in being able to invest in these companies while they're private, I think is a really important advantage. It's a way of accessing those returns that special companies can make, as early as possible. So that's one important reason that we do this.

As I say, we try to be very selective. We have five companies in the portfolio that are unlisted. Some of those will IPO over the next few years we would imagine. We'll have to wait and see, of course. Fundamentally we believe that these companies are going to deliver superb returns over the long-run

and that's why we do it. Your point about the discount, Stephen my comanager, and I would very much agree because we own quite a lot of shares in the trust ourselves. We've probably been net buyers over the course of the last year, while that discount has been quite wide. So, take of that whatever you want, but I think we would generally agree that the trust looks quite cheap at the moment.

If you're buying a high-quality selection of underlying companies at a discount, with a wrapper that's got a discount, it's quite an interesting time to be a buyer I imagine.

We'd probably agree with that.

Some of the remaining questions I have we've broadly touched on. I just wanted to get into why are many of these successful companies of the future staying private for longer? What's at play there? Perhaps the benefits of remaining private and the unlisted company exposure of the trust. So, I suppose, a little bit about illiquidity. Finally, just to colour it, an example of one of the private companies within the portfolio.

I'll take you to those in turn. So, one of the reasons I think companies are remaining private for longer is that there are a lot of companies out there these days that don't need much capital. So, you can get to a point where you're pretty self-sufficient quite quickly. So, there's less of an onus on you to come to the market to raise capital. Another reason I think is that the market can be quite a hostile place at times. What we would observe in Europe is that there is probably much more hostility towards investing for the long-term than there is in the US. I think there's probably less tolerance in Europe, of companies remaining unprofitable for a period while they invest to build their business, build their userbases. Build their competitive advantage.

In a lot of cases, that's been absolutely the right thing to do. We mentioned Spotify earlier. They've been investing a great deal to build their userbase. They still are investing a lot and to build the offering, to improve the product, improve the service such that at some point in the future they can put up prices and make profits. They have recently swung to a profit after a long period of not really making much money. We think that the future now looks an awful lot better. It was absolutely the right thing for them to be able to invest, but it was hard for them to do that in Europe. Now, it helps that Spotify probably has quite a strong American identify as well. Where there's a lot of hostility to long-term investment, that can often make it difficult for companies to realise their ambitions.

We are very cautious about that. We want to find those companies that are willing to take that leap and that's one of the reasons that you might just decide to remain private and believe me, there are plenty of companies that we talk to who wish they were still private companies for

that reason. You asked about the benefits of illiquidity and I guess, that's also asking about patience because if you're taking a risk on illiquid assets, private assets, then you are essentially locking in an investment timeframe because you don't really trade these assets in the way that you're able to trade on the public market.

One of the benefits of patience, I think generally, is that it's to do with the way that equity market returns work. I mean, we know that there is an asymmetry, a profound asymmetry in equity markets, whereby the top returning stocks will return enormous sums of money. Many, many multiples of the original investment. Whereas, the downside is capped at 100%. So that's what we mean when we talk about the asymmetry of returns in equity markets. Now, one of the obvious benefits of patience is that you get to take advantage of that. I mentioned Atlas Copco earlier on. That's been one of the best returning stocks for our European fund, but you needed to be patient.

You needed to hold it. People tend to talk a lot about buying and selling, but what about holding? What about the discipline of continuing to hold great companies over the long-term? So that's one of the really important things here. You need to have the patience and investing in private companies in a long-term vehicle like the trust, I think is a really good expression of that patience. Maybe to try to bring some of the unlisted companies to life. As I mentioned, we have five private companies in the trust. We tend to be selective. We've looked at the great many. We've tried to pick the ones that we think are doing something really special. That have got real long-term potential.

It can be a bit frustrating for us at times because we'd love to talk more about these companies, but because they're private, there are lots of things that we're just not able to talk about. Let me give you two examples and maybe, tell you a little bit about why we're excited about them. So, one would be Flix. So, you might have seen their green buses driving around the UK. That's a bit of a misleading statement because they're generally not Flix's buses. Its innovation was to recognise that fleet operators, so companies that operate buses generally don't do a very good job at the front end. So ticketing solutions, yield management, pricing, route planning. That sort of thing. Whereas, they tend to be much better at managing their fleet. So, who's driving what bus, when?

Maintenance, etcetera. So, what Flix did, was it separated the two. So Flix is doing the frontend, it's doing that ticketing, yield management, etcetera. Whereas, the bus companies are doing the fleet management side of things. It thinks it can expand that far beyond Europe and the UK, where it's already made a tremendous success into Latin America, into India, which are really, really substantial markets and it takes quite a big take rate from the typical ticket that gets sold. So, it shares the benefit of its productivity improvements with the fleet operators themselves. So, we think that's got a very,

very long runway for growth. It's also experimenting in trains on the continent. Be interesting to see how that evolves over time as well.

Second example would be Bending Spoons and it's nothing to do with Uri Geller. The company operates out of Milan. How can I describe it? It's like an acquirer of apps. So, some of the famous apps that it has bought over the years would be WeTransfer, for example. Which is used a lot by videographers, photographers, who usually deal with very large file sizes and it helps them move those files very quickly and easily from one place to another. Another example would be Meetup, which is like a Tinder for people who want to find people with similar interests. So, it's a great way of finding local interest groups that you might like to join in your area. Whether it's local history, for example or various other things. What Bending Spoons does, is it buys these apps. It recognises massive efficiency savings.

So, a lot of these apps are Westcoast. They're using very expensive labour. They're probably overinvesting for growth. What Bending Spoons does, is it makes them much more efficient and it takes cost out. Makes them right sized essentially. That can release a lot of latent profitability these businesses haven't been generating in the past. One of the things we like about Bending Spoons is that it reminds us of a lot of other companies that we've looked at, that have been very successful as serial acquirers. So, companies that grow through acquisition and we've got a few of those in the portfolio and we see some of the similar hallmarks here at Bending Spoons. So those are two really exciting unlisted holdings that we have in the portfolio. As I say, I'd love to be able to say more, but it's very difficult for us to go into specifics because they're private companies.

I think we've had a real insight into-, I think we've covered the brief of the unsung heroes. Do you want to go into a little bit more detail on the trust trades at a 15% discount. Why not liquidate your three least undervalued holdings and buyback stock? Have you considered that strategy?

Well, the buying back of stock, that's a decision for the board. So, we generally, as managers, don't make decisions as to whether the trust should buyback shares. That's a decision that's taken by the board. I think the board has been reasonably active in buying back shares over the course of the past 12 to 18 months. Generally, obviously we have to raise capital to do that. So that's pretty much, what the questioner describes, is usually what we do. We will look at the holdings where perhaps we have the lowest levels of conviction in order to raise capital, if and when the board decides that they want to buy back shares.

We've got one here on the interest rate cycle. "So, with interest rate potentially falling, does Baillie Gifford become a more attractive partner for growth companies?"

As I said earlier, we don't spend a lot of time talking about what's going to happen with the interest rate cycle. I think it was John Galbraith who said, "The job of economic forecasting is to make astrology look respectable." We generally think that our strengths are analysing businesses and identifying businesses that have the power to continue growing over long periods of time in spite of economic conditions. Let's go back to Atlas Copco. So, a Swedish compressor business. They have grown fantastically well for decades and they've done that through Swedish financial crisis in the 1990s. Through the dot.com crash. Through Global Financial Crisis. Through the pandemic. Through numerous interest rate cycles up and down.

What we're looking for, ultimately, is those businesses that have got something very, very special about them. Whether it's pricing power, special culture, competitive advantage, that allows them to continue allocating capital at high rates of return over the long-run. So, we would put much more emphasis on that, than the direction of interest rates. Now, interest rates clearly have an impact on equity markets and how stocks are valued. Particularly the discount rate that gets plugged into people's discounted cashflow models and so on. Our focus really tends to be on those factors that allow companies to continue growing, despite what is happening in the broader economic context.

I've got a question on a specific stock here. "Dassault Systemes healthcare businesses. It's been performing comparatively less well to Viva, it's US competitor." So, the audience member here is just trying to understand the dynamic there. What's different in the healthcare systems services businesses between Europe and the US?

I think that's absolutely right, Viva has been doing extremely well. It is a very good competitor and it's one that we've been learning a lot about over the course of the last six to 12 months. Dassault's strength, historically, was always in its core business. It basically digitised the automotive and aeronautical supply chains over a period of decades. It's done an incredible job in those markets and is very embedded, a very important partner in those chains. Our case for the life sciences business was that Dassault might be able to do something very similar in the drug development side of things. Now, I think it's fair to say that recent performance has not been quite what we hoped it would have been.

As I mentioned Viva is doing a very good job. They've been very ambitious. They've built a very impressive product portfolio. So, the hope would be that Dassault really starts to build a portfolio that

can really compete with that over the course of the next few years. I think it's very much a subject that we're still learning about and we may have more to say on that in the next few months.

This is a much more specific question on Baillie Gifford's setup. "What are the core differences between European and American AI companies? Do you see European companies catching up any time soon?" Do you have any insight? AI is the talk of the town, isn't it. Everybody wants a piece of that action. I suppose the question here is, how is playing out differently in Europe to the States and what can one learn from the other?

I think it's safe to say that there's been much more of a boom in the States than there has in Europe. What we would say is our focus tends to be, when you get these great transitions and these happen periodically. We see something similar going on in the next zero transition at the moment as well. This is a massive change for society, for the economy and it's going to have massive implications over the long-term. It's very, very difficult to pick some of the winners at the frontend of that. So, what we have tended to do is, we've tended to focus a lot of our efforts on some of the more picks and shovels type businesses. The ones that are enabling that change.

So, in Europe, for example, if you think about one of the demands that AI will be placing everywhere in the world really, it is that we'll need more computing power pretty simply. So how do you get that? Well, you need chips. You need more chips. You need chips that are more powerful over time and this is one of the reasons that Nvidia is doing so exceptionally well in the US. There are other parts to the semiconductor supply chain in Europe, which we are invested in. So, we talked about ASML. Lithography is a really crucial component for ensuring that computational power continues to grow. We have an investment in a business called Soitec, a French semiconductor business which makes engineered substrates which is quite interesting.

So, helping to get more productivity out of wafers. That's going to be important as well. So that's really where we focus a lot of our energy. It's on those picks and shovels. Anybody can look at AI and say, this is going to be big. The really difficult thing is looking at which of those businesses are going to be able to successfully ride that wave and will still be here five, ten, 15 years from now. I think that's a much, much harder question to answer.

To your point about having exposure to the picks and shovels, we're still in that building of the infrastructure stage. Do you think the application of AI is what everyone's getting excited about,

but businesses are quite a long way away from fully utilising its potential or fully realising its potential?

I think what you will see is that it will have profound implications across companies. Across the economy, but in profoundly different ways. Let's take the example of software development, for example. We can see that there's very significant productivity uplifts when AI tools are used. Every company will have its own questions to answer about how AI is giving them opportunities. It's threatening their business and I think the answer will be very different, depending on which company you talk to. So, in some ways, it'll affect every company that we currently own in some way. Some more significant than others. We're still thinking through how that works.

The broader point is that this is going to be significant. The way of investing in that that does not require you betting on-, a bit like the dot.com boom and bust. The internet was going to be a big thing, but which of the companies are going to be able to ride that wave and then survive afterwards? The answer was not very many. So, we have to be very careful when we're looking at the companies benefitting from this wave of innovation. That we find the ones that are able to endure over long periods of time. There are various characteristics there that we've already talked about that we'd be looking for. If you're trying to build a long-term sustainable business, you might be looking for businesses that have got some element of service to them.

Where you've got regular interaction with customers. Where you keep having to go back to fix things for them. Where you have a contract where the customer needs you on a long-term view. So, we're looking very much at those picks and shovels businesses where we see those sorts of models quite often, and trying to figure out which of those are going to be there in five, ten, 10 years' time. Certainly, in the AI boom, ASML is probably going to be one of the most important ones.

A great note to end on because that's all we've got time for. Thank you very much for your time, Chris and thank you guys, for listening and for your insights and questions. We've got more sessions like this coming up, so do keep an eye on those if you found today useful. Thank you very much.

Annual Past Performance to 30 June Each Year (Net %)

	2020	2021	2022	2023	2024
Baillie Gifford European Growth Trust	30.7	46.1	-47.5	19.3	5.0
FTSE Europe ex UK Index	0.2	23.0	-12.4	19.6	13.5

Source: Morningstar, FTSE. Share price, total return in sterling.

Past performance is not a guide to future returns.

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