Baillie Gifford™

Global Income Growth Q1 investment update

April 2025

Investment manager Ross Mathison and investment specialist Seb Petit give an update on the Global Income Growth and Responsible Global Equity Income strategies covering Q1 2025.

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Seb Petit (SP): Hello, and welcome to this quarterly update on the Baillie Gifford Global Income Growth Strategies. I'm Seb Petit, an investment specialist, and I'm joined today by portfolio manager Ross Mathison. As a reminder, our strategy aims to invest in quality compounders, companies which we expect to deliver attractive growth in earnings and dividends over the next decade with below-market volatility.

Ross, we expected President Trump to make waves, and he certainly has not disappointed. In the first quarter, global equity markets fell about 4 per cent in sterling term, and we saw a massive rotation away from US equities towards non-US equities. What is your high-level take on this quarter?

Ross Mathison (RM): Yeah, so it's clear to see that Trump has come out of the gates fast. We've seen a flurry of executive orders, and the impacts he's having are beyond just the US borders. And like you say, that has led to quite a big rotation in markets, US equity is having a tougher time, and international equity is doing better in the period.

I think at the heart of it there's a few things going on in the markets. There's the uncertainty of what comes next, the putting on of tariffs, the taking off of tariffs. And markets just don't like uncertainty, particularly in equities. Then when we think about what this does in terms of actions on the back of it, it really knocks confidence. It knocks the confidence of businesses, willingness to invest, consumers knowing what's coming around the corner. So that's really making people very, very nervous at the moment.

Then there's been quite a change in foreign policy and what the US as a kind of safety net looks like for Europe. And that has meant we're spending or projecting that spending is going to have to increase. And you see countries such as Germany taking this kind of debt break off and announcements of perhaps a trillion euros of spending over the coming decade, boosting growth expectations for the European markets.

Then when you just reflect on where the US has come from after such a long, long period of strength in the US equity markets, valuations have got to a point of real relative highs on a 20-year basis compared to the rest of the world. And then when you couple that in with things such as the deep-seek news where people think, OK, maybe the AI theme is going to play out different from how we initially imagined, that took a knock to a lot of tech valuations in the US market.

So a lot going on, but yeah, quite a significant rotation out of the US and into international stocks.

SP: In that challenging environment, how did the portfolio behave?

RM: So it behaved exactly in line with what we would want it to do. This is a portfolio that we focus on resilience, and so when the markets go down, we believe that the portfolio should hold up better. And against you said a backdrop where the markets were down 4 per cent in sterling terms, the portfolios were roughly flat. So it did hold up.

And that comes down to the focus on high-quality companies, really looking to have strong fundamentals, excellent management teams, and that proved to be the case in this most recent quarter. What has given us encouragement is as we look through the results that come in from the 2024 year, companies are delivering operationally what we would expect. The majority of the companies in line with what our investment thesis is. So, yeah, a very robust and reassuring first quarter.

SP: Thank you. And if we dig a little bit into the drivers of the returns in that first quarter, can you give us a bit more information on that?

RM: Yes. So what was being quite unusual in this quarter is our large underweight US for once in a long time has actually come in quite handy, the overweight Europe being the other side of that. So there's a big regional tilt within that.

When you look at the positive contributors at a stock level, what you see is it's our stock exchanges which have really helped, Deutsche Börse in Germany that benefits from people thinking that the changes in spending in Germany mean there's now growth to go after and people do more trading in these uncertain environments. Then exchanges like B3 in Brazil or CME, our US listed exchange, the world's largest derivative exchange. One thing uncertainty brings is the need to hedge more and a derivatives change benefits from such a thing. So they'd be on the positive side of the ledger.

And then if you're thinking on the detractors in the quarter, you can look and what's actually quite interesting is you see two of the companies are two of our longest standing positive contributors, Novo Nordisk and TSMC, but had a tougher quarter.

Novo Nordisk, a pharmaceutical company who makes drugs for patients with diabetes, but all the excitement in recent years has been their drugs for patients with obesity. But the market is now slightly worried whether it got ahead of itself, whether it extrapolated the growth in the obesity

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population who would be seeking treatment, and is now questioning whether competition will come into that market in the future. So it's quite different from what it did in the middle of 2024. we obviously don't share that view, but that has knocked short-term performance there.

And then TSMC, the Taiwanese semiconductor manufacturer, again, has had a great period of performance over the last decade. Valuations had kind of risen, not to extreme levels, but certainly had risen. And on the back of people taking some profits and concerns about what deep-seek might mean for the intensity of the rollout of AI, that has been on kind of the negative side of the ledger.

SP: Thank you. Let's talk about transactions. What changes have you made to the portfolio this quarter?

RM: So there's been one name that has exited the portfolio, which is UPS, the parcel delivery company in the US, has been a solid enough performer. It was only a couple of years ago they were putting a dividend up by nearly 50 per cent, but having done more work, again, using our investigative researchers, looking at competition, particularly Amazon, and also the impact of these low-cost Chinese consumer companies and what they're doing for creation, new delivery models, We've grown concerned about this is a business with a very high fixed asset base and really needs volume going through its business to maintain its leverage. And so we just decided that the risk reward was no longer in our favor, so decided to move on from UPS.

We trimmed a couple of names that had done well. TSMC that we mentioned had done well in the recent years and just took a bit of profit off of that. It was a position size that had become very large. And then SAP, the enterprise software company based in Germany, has had a fantastic run of performance to the point where the valuation had gone above what our conviction levels were. And so we right-sized that again.

And then on the other side, where we've redeployed this capital would be into names such as Edenred, a French-listed business that does meal vouchers, but also a range of mobility solutions for businesses. It is a company where the market has grown really concerned about regulatory risk. We took on a piece of work looking and forming our own views on the regulatory risk in France, Brazil and Italy, three main markets for them. And I've got quite a different view to the market. We think it's nowhere near as existential as how the market is pricing that in, and so we've been adding to our position size there.

SP: Thank you. Would you venture an outlook for the rest of the year?

RM: So it's very difficult to try and predict what comes next from Trump and then what that action looks like a week after, whether it gets reversed or whether it gets doubled down on. So I think it's a silly game to get in to try to guess where this goes from here.

What we can see, which feels quite concrete, is it's impacting confidence and we need to just make sure that our businesses are aware and reacting appropriately to that. But we will just keep our focus on the company fundamentals, looking to see that the companies are delivering in line with our investment thesis. And we will keep our eye open for opportunities that emerge, because one thing that happens in these markets where stocks are moving a lot because of pronouncements that maybe lead to nothing is there will be opportunities. So we have a shopping list and we're ready to go.

SP: Thank you for this review. Three main points I retain.

The first one is that, as expected, the portfolio proved resilient in a challenging market environment. Secondly, operational development for our holdings is in line with our expectations. And thirdly, it's very difficult to make a prognosis in the current environment, but certainly the quality and the resilience of the portfolio should help our clients sleep well at night.

Thank you for joining us today, and thank you, Ross, for your time.

RM: Thank you.

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Global Income Growth (including Global Income Growth and Responsible Global Equity Income strategies)

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

	2021	2022	2023	2024	2025
Global Income Growth Composite	50.4	7.7	-1.1	12.5	1.9
Responsible Global Equity Income Composite	49.7	8.8	-0.7	14.4	1.7
MSCI ACWI Index	55.3	7.7	-7.0	23.8	7.6

Annualised returns to 31 March 2025 (net%)

	1 year	5 years	10 years	Since inception
Global Income Growth Composite	1.9	12.9	8.5	-
Responsible Global Equity Income Composite	1.7	13.5	-	11.3*
MSCI ACWI Index	7.6	15.7	9.4	12.4

*Inception date: 31 December 2018.
Source: Revolution, MSCI. 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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