Baillie Gifford™

Global Income Growth Q2 investment update

July 2025

Investment manager Ross Mathison gives an update on the Global Income Growth and Responsible Global Equity Income strategies covering Q2 2025.

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

Ross Mathison: Welcome to this update on the Global Income Growth Strategies. I'm Ross Mathison, a Portfolio Manager, and over the next five minutes, I'll talk about the market environment, our performance, and the changes that we've made to the portfolio.

Looking back at the last three months, the word that comes to mind is paradox. Global equity markets dropped sharply in early April, only to rebound quickly, finishing around 4 per cent higher in sterling terms. Volatility spiked and then faded. And for equity markets, it's as if almost nothing happened. But some things have changed. The US is toying with tariff levels not seen in decades. And the US budget proposal is expected to extend budget deficits for many years ahead. These measures, combined with unpredictable policy announcements, are creating a more fragile economic environment, one where visibility is poor and planning is harder for businesses.

It's a paradoxical moment. Optimism is priced in, but unease is building. We believe this environment reinforces the value of our approach to investing in high-quality companies with strong cash flows, healthy balance sheets, and the resilience to weather disruption. Against this backdrop, the strategy returns were broadly stable in sterling terms, slightly behind the broader market in Q2. Following a strong relative performance in the first quarter, this means his strategy has broadly kept pace year to date, with an index which has again come to be dominated by a few very large tech companies.

Among our top contributors in this quarter was **TSMC**, which reported strong growth, supported by surging demand for AI-related chips. The company remains exceptionally well-positioned, with a diversified customer base and continued operational momentum. UK insurer **Admiral** also performed well, rising sharply after announcing the sale of its US business, a move investors viewed as a sign of capital discipline and focus. And then thirdly, Chinese gaming company **Netease** was

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com

another standout. Strong earnings and cost control helped push the stock up over the quarter, supported by the continued success of self-developed titles.

On the other hand, not owning NVIDIA was the biggest relative headwind. Watsco, PepsiCo, and Procter & Gamble also detracted. For Watsco, they reported weaker Q1 results, and investors are concerned about the risk from tariffs. However, we believe this is short-term noise rather than a material change in its long-term growth prospects and resilience, so we remain invested. PepsiCo and Procter & Gamble underperformed as investors rotated out of defensive companies. Both of these companies reported softer quarterly numbers, but we think the market reactions were overdone. With valuations now at multi-year lows relative to the market, we believe that investors have taken too negative a view on future prospects.

This quarter, our investigative researcher delved into Procter & Gamble's culture, and the report highlighted a very strong culture of innovation, a healthy paranoia, and a focus on excellence. It was reassuring as this is crucial for long-term compounding, and we therefore have held on to our position. We have made a few portfolio changes during the quarter. We initiated two new holdings in the quarter, investing in two companies that we've admired for a long time. And following further research and a more attractive valuation, we have decided now is the time to invest.

So first is **Accenture**, a global professional services company that helps large organisations modernise their systems and adapt to new technologies, such as AI. With strong recurring revenues, a global client base, and a reputation for execution, it stands to benefit as companies continue investing in an ever increasingly complex technology landscape. Its scale, diversification, and consistent cash generation support both growth and a reliable dividend.

The second new position is in banking software provider **Jack Henry**. Our belief is that Jack Henry is a classic high-quality compounder with a long growth runway and weak competitors. For over 50 years, Jack Henry has built trusted relationships with regional financial institutions. These customers are typically cautious about switching providers, which contributes to a 90 per cent recurring revenue base. The business requires little capital to grow, and its consistent earnings and dividend track record make it resilient across economic cycles. A temporary slowdown in growth led to a pullback in the share price, giving us the opportunity to initiate a position in this long-admired business at a more attractive valuation.

During the quarter, we also redeployed capital into existing holdings where the outlook remains strong, but valuations are compelling, including airline IT specialist **Amadeus**, Sweden's **Epiroc**, and **Paychex** in the US. On the funding side, we exited our position in Taiwanese consumer health company TCI after reduced conviction that this company will prove to be a durable compounder in the long term. We also trimmed positions that had performed well and reached higher valuations, such as Deutsche Börse, SAP, and Fastenal.

In conclusion, while markets may suggest calm, the economic landscape is shifting. Policy volatility, rising deficits, and geopolitical uncertainty are not going away. We remain convinced that a focus on quality, resilience, and long-term fundamentals will serve us and our investors well in the months ahead. Thank you for watching. Goodbye.

Global Income Growth

Annual past performance to 30 June each year (%)

	2021	2022	2023	2024	2025
Global Income Growth Composite (net)	39.0	-14.2	17.7	9.7	8.3
Global Income Growth Composite (gross)	39.8	-13.7	18.3	10.3	8.9
Responsible Global Equity Income Composite (net)	38.0	-13.6	19.6	11.6	7.6
Responsible Global Equity Income Composite (gross)	38.8	-13.2	20.3	12.2	8.2
MSCI ACWI Index	39.9	-15.4	17.1	19.9	16.7

Annualised returns to 30 June 2025 (%)

	1 year	5 years	10 years	Since inception*
Global Income Growth Composite (net)	8.3	10.8	9.0	-
Global Income Growth Composite (gross)	8.9	11.4	9.6	-
Responsible Global Equity Income Composite (net)	7.6	11.4	-	12.2
Responsible Global Equity Income Composite (gross)	8.2	12.0	-	12.8
MSCI ACWI Index	16.7	14.2	10.5	13.8

*Inception date for Responsible Global Equity Income: 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.

Risk factors

This communication was produced and approved in July 2025 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

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

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, but is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned.

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

The images used in this communication are for illustrative purposes only.

Important information

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.

Financial intermediaries

This communication is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

Europe

Baillie Gifford Investment Management (Europe) Ltd (BGE) is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. BGE also has regulatory permissions to perform Individual Portfolio Management activities. BGE provides investment management and advisory services to European (excluding UK) segregated clients. BGE has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. BGE is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com

Hong Kong

Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 license from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Telephone +852 3756 5700.

South Korea

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

Japan

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

Australia

Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a "wholesale client" within the meaning of section 761G of the Corporations Act 2001 (Cth) ("Corporations Act"). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this material be made available to a "retail client" within the meaning of section 761G of the Corporations Act.

This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

South Africa

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

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.

Israel

Baillie Gifford Overseas Limited is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This material is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

Singapore

Baillie Gifford Asia (Singapore) Private Limited is wholly owned by Baillie Gifford Overseas Limited and is regulated by the Monetary Authority of Singapore as a holder of a capital markets services licence to conduct fund management activities for institutional investors and accredited investors in Singapore. Baillie Gifford Overseas Limited, as a foreign related corporation of Baillie Gifford Asia (Singapore) Private Limited, has entered into a cross-border business arrangement with Baillie Gifford Asia (Singapore) Private Limited, and shall be relying upon the exemption under regulation 4 of the Securities and Futures (Exemption for Cross-Border Arrangements) (Foreign Related Corporations) Regulations 2021 which enables both Baillie Gifford Overseas Limited and Baillie Gifford Asia (Singapore) Private Limited to market the full range of segregated mandate services to institutional investors and accredited investors in Singapore.

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com