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# Keystone Positive Change Investment Trust: manager insights

January 2024

**Investment manager Lee Qian provides an update on the Trust's performance and holdings, how companies in the portfolio are contributing to a more sustainable future, and explains why an era of constrained financing could benefit strong growth companies.**

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

My name is Lee Qian. I am an investment manager on the Keystone Positive Change Investment Trust. Today, I am going to provide a review of the recent performance, give an update on portfolio changes, and provide our outlook for the future.

Before we start, as a reminder, the Keystone Positive Change Investment Trust is an impact fund with two equally important objectives: to generate attractive long-term investment returns for shareholders, and to contribute towards a more sustainable and inclusive future. The Trust invests in 35 public and private companies that are providing or commercialising innovative products and services for a better future.

Those companies include Duolingo, the popular language learning app with over 80 million monthly active users; Northvolt, Europe's leading battery start-up; mRNA pioneer, Moderna; and Latin America's leading ecommerce and fintech company, MercadoLibre.

## Performance

Short-term investment performance has been challenging. Rising interest rates, supply chain disruptions and geopolitical events have created headwinds for growth equity investors. A few companies also underperformed against our expectations. Those include Ørsted, the world's largest offshore wind company, which has faced difficulties in its US business.

On the other hand, many companies demonstrated strong fundamental performance despite the challenging operating environment. For example, Remitly, which provides mobile remittance services that are cheaper and more convenient for users, continued to grow at a rapid pace and successfully gained market share away from incumbents like Western Union. Duolingo has been growing its active users, paid subscribers and revenues at an impressive pace, and demonstrated operating leverage as it made good progress on its path towards profitability.

Overall, in the 12 months ending September 2023, the median revenue and profit growth rates of portfolio companies continued to be ahead of the benchmark. More importantly, we continue to focus on the long term, and the progress of many portfolio companies over a longer time period remains robust.

In terms of impact, companies in the portfolio are making important contributions towards a more sustainable future. In 2022, Tesla delivered over 1.3 million electric vehicles and deployed over 6 GWh of energy storage. Those products enabled customers to avoid emitting 13 million tonnes of $CO_2$ into the atmosphere. Dexcom, which makes continuous glucose monitoring devices, has helped 1.7 million people manage their diabetes more effectively.

More information about the impact of portfolio holdings, including how they contribute towards the United Nations Sustainable Development Goals, can be found in our annual impact report.

## Portfolio update

We made several portfolio changes recently. Tesla and Shopify had a strong share price appreciation this year, which presented an opportunity to recycle some of those gains into other holdings. We also sold M3, a Japanese online medical platform company, FDM, a UK recruitment and training company, as well as Daikin, where we deemed its exposure to white phosphorous contravened our controversial weapons policy.

Those proceeds were reinvested into new and existing holdings. We took a new position in WuXi Biologics, a leading contract research, development and manufacturing company focusing on biologics drugs, and we invested in Boston Metal, a private company that is commercialising a novel technology for producing green steel. We also added to a few companies that have demonstrated strong operating progress, including Duolingo, Coursera and Remitly.

## Outlook

The structural growth drivers for companies that are contributing to a more prosperous, sustainable and inclusive future are as strong as ever. For example, in order to keep global warming well below 2C, we as a society need to invest more than $8tn in renewable energy by 2030. And while the near-term impact of higher interest rates is a de-rating of growth equities, the long-term impact could be more favourable.

In an environment of more constrained financing, competition will become more rational. Inferior companies will no longer be able to sustain their growth by relying on cheap capital. In their place, well-managed companies with strong competitive advantages should start to gain market share and generate above-average revenue and profit growth.

We remain confident that by looking for companies that are having a positive impact on the world, and focusing on a subset of those who have strong competitive advantages or a realistic prospect of creating them, we will be well-placed to generate attractive long-term investment returns for shareholders and contribute towards a more sustainable future.

## Annual past performance of the Keystone Positive Change Investment Trust to 31 December each year (net %)

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Share Price | 23.3 | -0.8 | -4.8 | -33.5 | 9.4 |
| Net Asset Value | 23.8 | -11.2 | -5.7 | -24.9 | 8.9 |
| Index* | 19.2 | -9.8 | 17.5 | -7.6 | 15.9 |

*MSCI ACWI Index (GBP). Changed from FTSE All Share Index on 10/2/2021.

Source: Baillie Gifford & Co, Morningstar and MSCI. Total return, sterling.

Past performance is not a guide to future returns.



## Important information and risk factors

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The specific risks associated with the **Keystone Positive Change Investment Trust** include:

- 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 invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.

- Unlisted investments such as private companies can increase risk. These assets may be more difficult to sell, so changes in their prices may be greater.

- The Trust can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid by the Trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the Trust will make a loss. If the Trust's investments fall in value, any invested borrowings will increase the amount of this loss.

- Market values for securities which have become difficult to trade may not be readily available and there can be no assurance that any value assigned to such securities will accurately reflect the price the Trust might receive upon their sale.

- The Trust's risk is increased as it holds fewer investments than a typical investment trust and the effect of this, together with its long term approach to investment, could result in large movements in the share price.

- The Trust can make use of derivatives which may impact on its performance.

- The Trust invests in companies whose products or behaviour make a positive impact on society and/or the environment. This means the Trust will not invest in certain sectors and companies and the universe of investments available to the Trust will be more limited than other funds and trusts that do not apply such criteria. The Trust therefore may have different returns than a fund or trust which has no such restrictions.

- Share prices may either be below (at a discount) or above (at a premium) the net asset value (NAV). The Company may issue new shares when the price is at a premium which may reduce the share price. Shares bought at a premium may have a greater risk of loss than those bought at a discount.

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- The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.

- The aim of the Trust is to achieve capital growth. You should not expect a significant, or steady, annual income from the Trust.

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 **www.bailliegifford.com**, or by calling Baillie Gifford on **0800 917 2112**.

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