INTERNATIONAL CONCENTRATED GROWTH Q2 INVESTMENT UPDATE

Investment specialist Paul Taylor and investment manager Paulina McPadden give an update on the International Concentrated Growth strategy covering Q2 2023.

As with any investment, capital is at risk. Past performance is not a guide to future returns.

This communication was produced and approved in July 2023 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

Paul Taylor (PT): Hello, and welcome to the second quarter 2023 update for Baillie Gifford's International Concentrated Growth strategy. As a reminder, we run a concentrated portfolio between 20 and 35 of the most exceptional growth companies we can find in the international universe, with also latitude to invest up to 15 per cent in US equities.

I'm joined today by one of the portfolio managers for the strategy, Paulina McPadden, who in conjunction with Lawrence Burns and Spencer Adair, manage the strategy.

Paulina, thank you very much for joining me, always a pleasure to see you.

Paulina McPadden (PM): Thank you very much.

PT: We concentrate on a long-term investment outlook, trying to capitalize on the asymmetry of equity market returns. By long-term we mean 5 to 10 years. But is there anything that's happened recently that you would pull out as meaningful or significant in the portfolio?

PM: Well, perhaps what stands out most is the scale of outperformance in Nvidia shares over the quarter. Shares were up something like 30 or 40 per cent in the last three months, and that's largely on the back of a sudden significant shift in expectations for revenues in the next quarter, so much shorter-term than we normally think. But I think it's also interesting because it's indicative of a much higher level of concentration within market returns, more recently.

That general trend is something we've been aware of for a long time, where we've worked with Professor Bessembinder at Arizona State University, and he's done work that shows that over the very long term, market returns come from a very small number of companies and indeed that is why the portfolio is so concentrated. But more recently, that's been even more evident within the market.

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PT: Fascinating. So, given the reaction that Nvidia shares have had, and the future success that's already discounted in the share price, what does that mean for our position in Nvidia from here?

PM: Well, the reason that Nvidia has done so well is because the market suddenly realized that this thing called artificial intelligence is actually quite important. But we've been aware of that for five or six years now. I remember speaking to an economist in California who said that artificial intelligence was going to be as big a revolution as the printing press, and Nvidia is effectively the core, if not the only enabler, of the growth in generative AI and large language models, because it provides the GPUs that make that sort of model training possible.

Now, I think we're still at the very early stage of what AI can make possible. What we are effectively doing is freeing up intelligence and we don't yet know where that's going to take us. So, I think we should continue to own the company that is making that possible while being on the lookout for perhaps shifts in competitive environment and market size.

PT: It's really interesting to hear you mention the printing press. I mean, I've heard so many people mention that over the past few months, but we've been thinking about that over years. So that's super interesting. On the other side, is there anything you'd highlight as detractors recently from performance?

PM: MercadoLibre comes to mind, and that's largely on the back of broader macro concerns. It's a Latin American e-commerce and payments business, but we think that the long-term opportunity for this company remains very strong. So, e-commerce penetration within its core Latin American market is still significantly lower than the global average, so there's room to run there, and its fintech business operates in a space where there is quite a large underbanked or unbanked population. So they're providing really important services to the local population and we see very much a route to that company being worth multiples of what it is today.

PT: That's also a good reminder that we do not react to quarterly share price gyrations and think genuinely long term. Along with Lawrence Burns, you and he spent, I think it was a month in China this quarter? And China has not been an easy geography to get to, given Covid travel restrictions recently. But you've been there, met a lot of companies, met a lot of a lot of people on the ground in their home environment. Is there anything you can share with us from that trip?

PM: I think we've been extremely lucky because we do have a Shanghai office and we have colleagues in Shanghai. We can speak to you regularly and they've been able to sort of keep us in touch with companies in China. But there's really no replacement for just going out and seeing founders yourself.

I think perhaps what struck me most was just the continued speed of change in the country since we were last there, particularly within the green technology and climate solutions space. So last year, China sold nearly 7 million electric vehicles nationally, and domestic EV manufacturers are starting to really significantly start exporting their cars beyond China. In fact, you can now buy a BYD car in Edinburgh and Norway, for example, and I think that's going to lead to some significant implications for international businesses.

So there's lessons that we should be learning, and probably will also lead to some interesting companies being formed within China that we should be taking a look at, although we do need to keep an eye on the geopolitical tensions and how that might effect things as well.

PT: But as a strategy, we've got a very long and successful history with Tesla. What does what you've taken away mean for the Tesla investment case?

PM: Well, Tesla is currently at a 2.5 per cent position within the portfolio, which it used to be three times larger at one point. And we've trimmed it recently, again off the back of that trip to China, where we feel that there's a larger pool of very able competitors that they're facing in China. And the market perhaps recognizes that Tesla is a very successful car manufacturer. So, that growth in car sales is, to some extent, factored into the price. And from here, the investment case to a much larger extent depends on their success in autonomous driving as well as, to some degree, energy storage and solar power, which is an exciting but still very small part of their business. So we remain happy shareholders, but it's a smaller part of the strategy.

PT: It's really interesting to hear you say that because a lot of people still hear Tesla and think EVs, but the investment case really has moved on considerably from here. Excellent. So, we've been reducing Tesla. Where have we been putting the capital to work.

PM: Well, we have added to your holding in Adyen, which is a Dutch payments processor and they’re a fascinating company. They've still got a tremendously large runway for growth from here. They're less than 10 per cent penetrated in most of their markets they can expand to new geographies and new indications, create new products to sell to their customers. And culturally, they're just a really interesting company as well. It's fascinating to hear how management talk about the importance of maintaining that culture of excellence and focus and engineering and dedication to a single platform, which is their core competitive advantage.

And indeed, they've been able to take advantage of recent tech-based layoffs because while their competitors and peers have been laying staff and engineers off, Adyen has been making money throughout this whole period and they've been able to rehire, effectively, the best performers and take them on board.

PT: Fabulous, fabulous. Really interesting. Look forward to hearing more about Adyen in the future.

So, thank you very much for joining me and thank you very much for watching. We look forward to speaking to you again at the third quarter update. Goodbye.

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Annual past performance to 30 June each year (net %)

	2019	2020	2021	2022	2023
International Concentrated Growth Composite	0.3	45.2	60.7	-46.4	21.6
MSCI ACWI ex US	1.8	-4.4	36.3	-19.1	13.3

Annualised returns to 30 June 2023 (net %)

	1 year	5 years	10 years
International Concentrated Growth Composite	21.6	8.8	13.9
MSCI ACWI ex US	13.3	4.0	5.2

Source: Baillie Gifford & Co and MSCI. USD. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite.
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