

Positive Change Q2 investment update

July 2024

Investment manager Lee Qian and investment specialist Diana Philip give an update on the Positive Change Strategy covering Q2 2024.

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

Diana Philip (DP): Welcome to the Q2 2024 update for the Positive Change Strategy. As a very brief reminder, Positive Change is our only dual objective strategy at Baillie Gifford. We are seeking to invest in companies that generate attractive long-term investment returns, but also equally importantly to invest in companies that are contributing towards a more sustainable and inclusive world.

My name is Diana Phillip. I am one of the investment specialists on the strategy, and I am joined by Lee Qian, one of the investment decision makers on positive change. Lee, I thought that a very good place to start for this quarter's update is performance. It has been weaker as we've gone through 2024. I wonder if you could touch on the reasons behind this, but also are there any areas of concern among the decision-making team?

Lee Qian (LQ): That's a good point to start. We are still in an environment of high uncertainty with regard to macroeconomic events and geopolitical events. And the market is still quite risk-averse towards companies whose opportunities are further in the future. In addition, there's a dynamic that the market is gravitating towards: the so-called Magnificent Seven, the NVIDIA, the Microsoft, and the large tech companies. And they account for somewhere around 30 per cent of the S&P 500. And as their share price increased, that has been a headwind to our relative performance because we don't own those companies, with the exception of Tesla. Now, we are open-minded to consider them, but we do want to make sure that they meet our investments and impact hurdle before investing in them. And there's a lot of research that's ongoing to help us determine that.

DP: Given the weaker backdrop in terms of the performance of the strategy, have we taken any action in the team?

LQ: Yes, we have. From a portfolio perspective, we continue to upgrade the portfolio and look for exciting ideas for our clients. So two examples of recent purchases. We invested in Vertex Pharmaceutical, and this is a company that has come up with a revolutionary treatment for cystic fibrosis. Cystic fibrosis is a devastating disease. It causes patients to have excess mucus in their lungs and often leads to serious and deadly infections. Without treatment, many of those patients sadly don't live to see adulthood. But with treatment from Vertex, many of them are living to 60 or 80 years old and able to live a normal life. So this is truly transformational for those people.

Now, in addition to cystic fibrosis, Vertex is also investing in other disease areas, including sickle cell disease, pain, diabetes, and renal diseases. So, there's an opportunity over the next five years for them to expand their franchise to other exciting areas. So that's one example of a new holding in the portfolio. Another one is Epiroc, which is a Swedish mining equipment manufacturer that is leading innovation in the electrification and automation of mining equipment. Now, as our economy relies more on renewable energy and we build out wind farms, solar farms, and transmission lines, all of that will require more resources, including copper and iron, for example. So, we will need to mine more resources and this obviously has an environmental impact, but that can be reduced through the electrification and automation that Epiroc is working on. So two very exciting businesses that we have recently invested in for our client portfolio.

DP: Very exciting and very different in terms of the impact that they are delivering. I have noticed that turnover has ticked up, which I think is really reflective of the enthusiasm that the team have for the opportunity ahead. And I wonder if you might be able to touch on what is in the research pipeline. I understand that it's very full at the moment, you have a lot on your research plate. Is there anything in particular you'd like to bring to life?

LQ: Yeah, I mean, I call out two areas. One is around electrification. And so as we build out more renewable energy, and as more of our energy consumption gets electrified, we think this is a long-term tailwind. And we're looking at some of the pick and shovel companies that sell equipment like switch gear, and transmission lines, for this infrastructure build out. So that's one area we're looking at. Another one is just innovation in healthcare. We have discussed a number of companies in recent months that have been working on everything from software for clinical trials to help companies launch drugs faster and cheaper to companies that are doing a lot of the manufacturing of the drugs, and also biotech companies that are coming up with novel treatments. So we think this is a very exciting area, just the ongoing innovation in the healthcare sector.

DP: And with the potential to deliver significant impact for all of us watching the film.

LQ: Indeed, yeah.

DP: I wonder if we can touch on the fundamentals of the portfolio before we wrap up. We've often talked about the strong fundamentals that the portfolio benefits from. But I understand that these have actually even been improving over the course of this year. Why is that?

LQ: Yeah, you're absolutely right. The fundamentals are very strong and improving. If we look at revenue and earnings growth, they have accelerated this year. And so it's very pleasing to see. Now, actually, there are a wide range of reasons for that. Companies like TSMC, which manufactures semiconductors, and ASML that manufacture lithography equipment, they are obviously benefiting from demand from AI chips, for example. Then we have companies like Xylem in water infrastructure, Ecolab in waste management and waste treatments, and Novonesis, which makes industrial enzymes. And they are also benefiting from just strong economic growth and strong demand for sustainable products and services. And then we have companies like MercadoLibre and Nubank in Latin America that are using digital services to transform how people shop and access financial services. And they've just been executing really well, launching products that consumers demand and able to help them capture market share. So for a wide range of reasons, companies are seeing that growth accelerating.

DP: So accelerating growth, how about reinvestment levels? And how about the indebtedness of the portfolio versus the index?

LQ: Yeah, and they are doing very well across those metrics as well. So across the portfolio, companies continue to invest at a faster rate than the benchmark in terms of R&D spend at CapEx. And also, the debt level is low relative to the index. Most companies are very well capitalised. And a small number of companies that are still pre-profit, most of them have ample cash runway ahead of them to help them fund their investments until they reach profitability.

DP: A very strong position to be in then if we are in a higher for longer interest rate environment.

LQ: Exactly

DP: Great. Well I think that's a really positive place to end this quarter's update. Thank you Lee, and thank you all for listening. We hope that this has provided a helpful insight into what the team have been doing over the quarter, what they're excited about, and importantly, the strength of the portfolio.

Thank you so much for listening. Please do get in touch if you would like further information, or if you have any questions on any of the areas that we have discussed today.

Positive Change

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

	2020	2021	2022	2023	2024
Positive Change Composite	47.5	65.7	-38.4	24.3	1.9
MSCI ACWI Index	2.6	39.9	-15.4	17.1	19.9

Annualised returns to 30 June 2024 (net%)

	1 year	5 years	10 years	Since inception
Positive Change Composite*	1.9	13.8	N/A	16.8
MSCI ACWI Index	19.9	11.3	N/A	11.2

*Inception date: 31 January 2017.

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.

Past performance is not a guide to future returns.

Legal notice: MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

Risk factors

This communication was produced and approved in July 2024 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.

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.

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.