Baillie Gifford

International All Cap Q4 investment update

January 2024

Investment specialists Katie Muir and Joe Faraday give an update on the ACWI ex US All Cap, EAFE Plus All Cap and Developed EAFE All Cap strategies covering Q4 2023.

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

Katie Muir (KM): Welcome to this International All Cap Strategy update for the fourth quarter. As a reminder, the strategy aims to deliver attractive long-term investment returns by investing in a diversified portfolio of the best international growth companies. I'm Katie Muir and I'm an investment specialist for the strategy, and I'm joined today by Joe Faraday, who's been a senior member of the portfolio construction group since 2007.

So, Joe, Happy New Year. Thank you for joining me today. January is usually a time of reflection for most people. And it's no different in investment. So maybe we start by looking back at last year- what was going on, or what are your reflections in terms of the broader investment environment?

Joe Faraday (JF): Yes, sure. Well, thanks, Katie, and a belated Happy New Year to everyone. I think 2023 we have just got to reflect back and go, it was really mixed. Clearly, there was inflation, and that persisted. You had rate rises; those began to abate and roll over, and we all saw the ramifications from that, with markets being buoyant on that news. [We had] low levels of unemployment, and then geopolitics keep coming to the fore in lots of different ways that people simply weren't expecting.

And that's a lot of top-down factors, that's quite hard for us to try and navigate as quite purist stock pickers. But I think if you unpick that a little bit further, what's really interesting is the differences you see across markets. So you take the US as having been largely about the big seven and then for us in international, it's quite striking the differences across the various markets.

So Japan was all about deep value. Europe felt it was about the select few and growth was actually quite disappointing. It was hard to eke out. And then in emerging markets is also really mixed. It was the woes or concerns around China that really weighed on those types of stocks, but also the positivity around markets like Mexico, Brazil and India.

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

So in all, a lot going on across markets, a lot of top-down factors through the year. And if you try and segue a little bit into the fourth quarter, a lot of those seem to abate somewhat. It became a more positive backdrop and as we will go on and explore. It felt as if stock-specific risk, idiosyncratic risk, really started getting rewarded towards the latter parts of the year, which was great to see.

KM: Yes. And maybe turning to investment performance, starting with the year and then turning to the quarter. Absolute returns for the portfolio were very strong in 2023. But as you said, markets were strong. So the performance lagged the broader market and then things have improved in the fourth quarter. Can you maybe just touch on what some of the drivers have been of that relative performance?

JF: Yeah, sure. So I think let's celebrate that absolute returns were a positive. And as you then say, markets were really buoyant around the world, so it was a period of relative underperformance. I think there were three factors for the year. Japan, there was that big value rally that hurt quite significantly so. There's exposure into China direct and indirect and then low levels of exposure to areas that did notably well would be the likes of Banks.

So that's if you look at the year as a whole, if I home in on the fourth quarter alone, I think the primary driver – we'll unpack that a little bit - is stock-specific risk and that getting rewarded. Good operational performance showing through and that's again to be celebrated.

KM: Great, thanks Joe, And homing in now more on the most recent quarter specifically. Relative performance picked up, what were some of the drivers of that?

JF: Yes. So the positives [include] a number of the online businesses. One example there would be Auto Trader, the online autos classifieds. Its got 75 per cent market share. It's a dominant player here in the UK. Strong growth, strong pricing power coming through from that business. Another notable driver would be wide-ranging technology businesses. This is software, semiconductors, hardware-orientated businesses as well.

But also to re-stress that point, I think the third factor would just be idiosyncratic risk. If you go through any of the attribution reports or the risk profile of the portfolio, there's lots of different stocks showing through in terms of fourth quarter performance, in terms of a positive sense.

KM: Great. So lots of positives. And as you said, really good to see operational performance being rewarded by the market once again. Were there any areas of weakness?

JF: Yeah. So two, I think to quite simply call out. The woes around China continued and this is where there is direct exposure and there's also indirect exposure. So it's the likes of Shiseido Unicharm, Burberry, the recent purchase of Hong Kong Exchange. There's a lot of companies, International suppliers for US businesses, that have exposure to China, and the concerns around a recovery in growth has really weighed on a large number of those.

And then perhaps to cite one stock specific would be Lonza. It's seen a management change. We've seen an ousting of the CEO. It missed expectations in terms of delivered growth and it revised guidance. As we usually do, we're taking our time. We've met the Chair, we've met the interim CEO. We've done some follow-up work on various other companies in the sector, and we're reappraising where we want to take that holding with time.

So those would be the two factors I would cite in terms of the negatives. But thankfully a lot more positives for us.

KM: Maybe turning to activity, and what the team have been up to. I know the pace of idea generation continues to be very strong and that resulted in a number of new purchases in the most recent quarter. Could you maybe talk us through what those were and the rationale?

JF: Yeah. So, if we step back, the PCG has been busy on the road, Stephen and Iain were in Switzerland, Milena down in London. And I was out with one of our EM investors in India as well. So everyone's out there kicking the tyres, meeting new opportunities, thinking through those and existing holdings as well. And across the 180 investors here at Baillie Gifford, there was over a thousand company meetings.

So idea generation really at the fore. Let's keep the portfolio moving, evolving, latching on to new growth types. So the three new purchases this quarter were Ryanair, BHP and FEMSA. Ryanair is a leading European low-cost airline. It's a brilliant business. The financials are stand out, rock-solid balance sheet aligned management. They're targeting going from 200 million annual passengers to 300 million. It's growing very quickly. That's exciting.

The second purchase is BHP. The global major mining business. Exemplary operator, world-class safety. Brilliant record of capital allocation. We like the financial characteristics of the business as well and we've done a lot of work on copper over the last year or two, and we also used to own BHP back in the day. So this is a return to bringing it through into the portfolio again.

And then the third example is, the third new purchase [where EM held] is FEMSA. This is a Mexican conglomerate, the management and family there have really focused in on core operations. We really like to see that from these types of businesses. And the two key businesses there are Oxxo, which is a convenience store. They want to go from 23,000 stores to 30,000 stores. So again, growing very quickly. And the Coke bottling business is a free cash flow machine, so that really helps fund the business at the same time. So those are three new purchases. All really different. Great that they are being welcomed into the portfolio.

KM: Yeah. It's great to see a real eclectic mix. And I think we joked when I got back from Mexico, I'd counted more than 20 Oxxo [stores], just on a 1-hour car journey. So, to fund those we also had a few sales during the most recent quarter, and our sale approach or approach to sell discipline is something that we're often asked about by clients.

So maybe before you talk about the sales during the quarter, spend a little bit of time explaining how we think about sales.

JF: So yes, to buy, we need to sell, we invest in stocks, not just companies so we don't fall in love with them. Our fifth question is 'what would make us sell' in a robust framework to guard against behavioural pitfalls. And we have our forward-looking hypothesis that guides us for what to expect from each and every holding in terms of operational progress over the course of time. And to help track that.

If you look back at why we've sold over the last decade, half the time it's growth, a quarter of the time it's management, a quarter of the time it's valuation. So that kind of mirrors or maps why we buy. So I think that's quite encouraging to see that is the case as well or where we home in our time and our effort. And we share more on that in our quarterly letter if people want to reflect more on this as well, or reach out to us.

We sold five names, five holdings this quarter. Just to cite two, there's Farfetch and Ubisoft. Both of those being on management or concerns around management. Farfetch was sold towards the tail end of the third quarter, early stage of the fourth quarter. Milena had spent a day in London with the management team and we really lost faith in what they were likely to deliver upon. So that's the straw that broke on that one.

And Ubisoft we've been working with a lot over time on governance matters again, but lost faith in the management team there. So to buy we need to sell, it's robust, it's tried, it's tested, I think idea generation means there's a lot of competition for space in the portfolio at these times, which is good to see.

KM: Great and maybe to finish up, to summarise. Good strong absolute returns last calendar year. Encouraging relative performance in the most recent quarter. Looking forward, what gives you and the team grounds for optimism?

JF: So our approach and the holdings in your portfolio. On our approach, it's tried and tested. It's growth, it's stocks, it's long term. It's what we've done for decades on end. Within that thinking about each of the businesses and across the portfolio getting that right balance of growth, quality and resilience across the holding types and the blend of those.

And then also in our approach is the hunger to keep on improving testing, challenging how we go about investing. We've got our spring away day quite shortly. So each year reflecting on and upgrading, how we go about investing on your behalf. So that's on our approach.

On the holdings. We're excited about all the holdings across the portfolio, really compelling valuations, aligned management teams, lots of growth to go after.

And just to call out three that I'm quite excited about by what we've been seeing. Jeronimo Martins, the discount food retailer in Poland, Portugal and Colombia operating extremely well. Nippon Paint, The leader in China. Paint is a very special product. I won't get too geeky on that, but immense pricing power.

And then capital deployment, the stand out there would be, where emerging markets holdings are held, TSMC, the Taiwanese foundry business. And, billions and billions of dollars of CapEx going in across the world, very high levels of returns. It's a great backdrop for that type of business.

So we're excited about growth, We're excited about the management teams and alignment, really compelling valuations. We're upbeat on the outlook for the portfolio.

KM: Great, yeah it's a portfolio of world-class, as you say, international businesses that operate globally in many cases. So lots to be excited about for 2024 and beyond. Thanks, Joe, for joining me today.

And thanks to you, the audience, for listening. We hope you found it helpful and we look forward to updating you again soon.

International All Cap (including ACWI ex US All Cap, EAFE Plus All Cap and Developed EAFE All Cap strategies)

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

	2019	2020	2021	2022	2023
ACWI ex US All Cap Composite	33.4	33.2	3.2	-32.0	10.4
MSCI ACWI ex US Index	22.1	11.1	8.3	-15.6	16.2
EAFE Plus All Cap Composite	32.2	28.2	3.8	-30.9	9.8
Developed EAFE All Cap Composite	32.8	27.3	7.4	-32.2	10.1
MSCI EAFE Index	22.7	8.3	11.8	-14.0	18.9

Annualised returns to 31 December 2023 (net%)

	1 year	5 years	10 years
ACWI ex US All Cap Composite	10.4	6.6	4.1
MSCI ACWI ex US Index	16.2	7.6	4.3
EAFE Plus All Cap Composite	9.8	5.9	3.7
Developed EAFE All Cap Composite	10.1	6.3	3.7
MSCI EAFE Index	18.9	8.7	4.8

The International All Cap Strategy comprises three distinct variants. Overall, the variants are broadly similar, with the key difference being the degree of exposure to emerging markets listed holdings.

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.

Risk factors

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 was produced and approved in January 2024 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

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.

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) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018. Baillie Gifford Investment Management (Europe) Limited 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. Baillie Gifford Investment Management (Europe) Limited is also authorised in accordance with Regulation 7 of the AIFM Regulations, to provide management of portfolios of investments, including Individual Portfolio Management ('IPM') and Non-Core Services. Baillie Gifford Investment Management (Europe) Limited has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. Through passporting it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions ("FinIA"). The

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

representative office is authorised by the Swiss Financial Market Supervisory Authority (FINMA). The representative office does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. Baillie Gifford Investment Management (Europe) Limited 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.

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.

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