Baillie Gifford™

US Alpha
Q3 investment update
October 2024

Investment manager Mike Taylor and investment specialist Fraser Thomson give an update on the US Alpha Strategy covering Q3 2024.

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

Fraser Thomson (FT): Welcome to this update from our US Alpha Strategy. I'm Fraser Thomson, an investment specialist at Baillie Gifford, and I'm joined by Mike Taylor, one of the strategy's investment managers. Briefly, a reminder of what US Alpha is: it's a broad, diversified growth strategy looking to hold around 60 to 90 of what we think are the best American growth opportunities. Be that in companies which are growing fast and disrupting, steadily compounding, or growing through the ups and downs of their industries. We want to own companies in all three of those groupings.

So Mike, let's start by contrasting that with what's going on in US markets, where really narrow market leadership has been the dominant feature, not broad growth. So how do you, as a broad growth investor, cope with that kind of environment?

Mike Taylor (MT): I think that is a fair assessment of how the market's behaved this year. It's been driven by a small number of very large tech companies, and those are great businesses that we admire and we do invest in. However, as a broad growth investor, what you do in this scenario is stick to your guns and look for growth in all its forms. And the good news is we have been able to find, this year and previously, a number of great growing businesses. And actually, it is possible

Copyright © Baillie Gifford & Co 2024.

to outperform in a narrow market. The portfolio has done well in the last quarter. And I think you can attribute that to a broad range of growing companies that have, regardless of what the market has done, continued to do what they do well, invest in themselves, bring new products to market, and expand. We expect them to continue to do that from here.

FT: So, as you said, a strong quarter for returns. And when you look at the most prominent performers within that, healthcare is apparent, both at the very top end of the portfolio, but there's also been a clutch of healthcare holdings which have found it tougher going – the likes of a Moderna or Dexcom, perhaps. So when you look at that, is that a value proposition that you'd like to add to, or is that something that strikes a note of caution for you?

MT: Well, healthcare is a broad sector, and as bottom-up stock pickers we'll take each company on its own merits, ask what happened, and does that affect the long-term case.

So, you mentioned Dexcom and that that hasn't done well recently, and the reason for that is because the company reorganised its sales force this year and that's not gone as smoothly as they would have hoped. Now, we believe that Dexcom has an excellent solution to a large problem. It makes continuous glucose monitors that are used by diabetics. Diabetes is a health issue that costs the healthcare systems across the world very large amounts of money, and Dexcom makes a product which allows diabetics to manage their condition more effectively. So, we think the value proposition they have and the size of the market will win through in the end, and the company can get past this operational blip.

That's actually a strategy that has worked for us in the past and in the healthcare sector. So, one of our strongest contributors in the last quarter was a business called Doximity. It's like a LinkedIn to doctors, and last summer it performed very poorly because of issues with the ease of use of the platform. It makes money by advertisers, advertisers were finding it hard to spend their budget. Doximity accepted there was an issue there, they've made strategic investments and they've improved the platform for their customers, and as a result growth has come through.

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com
Copyright © Baillie Gifford & Co 2024.

I think it's our focus on the long term, the size of the opportunity and our trust in management that allowed us to do that. We're hoping the same will happen with Dexcom.

FT: Great. Well, extending beyond healthcare, when we look at the health of the overall portfolio, we've seen several companies, the likes of a Shopify or a Block or DoorDash, rapidly growing businesses, but perhaps focusing more now on the cost side of that equation and a more disciplined form of growth. So, when you look at what's happening there as a growth investor, how do you strike that balance between greater discipline and still wanting companies to be as ambitious as they can be?

MT: Yes, I think for me what has changed is, for those businesses, we've always known they've had enormous opportunities. So Shopify is in the ecommerce sphere, very big market. DoorDash is in the takeaway food sphere, very large market. But we've always had a bit of a question mark over that long-term profitability piece. What the most recent periods have shown us is that, yes, these businesses can be profitable. It's not just a theoretical assumption that we've made.

Now, what gives us the confidence ahead of time that that's going to happen? I'd highlight two things. Competitive advantage and management. So, both Shopify and DoorDash have very strong competitive positions, they're the leaders in their spheres, and we think they have excellent management.

In the case of DoorDash, if you think back to the last year of food deliveries that you've taken, it's unlikely that you'll remember everything that was positive. If something went wrong, well, that sticks in the mind. It's an industry that is defined by its negative experiences. Therefore, it's critical that you minimise the number of those. And DoorDash's management team has shown an excellent ability to do that. So, we think that that level of service allows them to price appropriately and make a profit in the long run. And that's what this period has shown, that's no longer just a theory, that is the reality today. So excellent progress by those businesses this year.

Copyright © Baillie Gifford & Co 2024.

FT: So, it sounds like conviction in the portfolio is generally very high. When we look at turnover levels, that would suggest the same thing. Turnover is around about 20 per cent , it's very consistent with your time horizon.

And when looking through those buys and sells from the past quarter, I was interested to see that there appears to be a change in your enthusiasm for caffeine consumption. Starbucks has left the portfolio, but Dutch Bros and Monster Beverage have come in.

MT: It might seem like a connoisseur's switch. Well, the logic goes something like this: we're hoping to hold these companies for five-plus years, and if you take that viewpoint, you really have to look at the long-term trends that drive those businesses. And we think there is a shift underway in how young people today consume caffeine.

If you cast your mind back, what Starbucks did very well was bring European coffee culture to America. And for the young people in the 1980s and 90s, 2000, that was something new and resulted in very strong same-store sales growth for Starbucks. Now we think the way caffeine is consumed by young people is shifting again. They're going for drinks that are more accessible. So, this tends to be energy drinks, which Dutch Bros is a coffee shop, but about 40 per cent of sales are energy drinks. Those can be sweetened, they can be flavoured, they can be easier to consume than coffee. So we think in the long run, consumption is going to shift away, perhaps, from something like a Starbucks to a Dutch Bros and a Monster. It'll be a gradual shift, but over our time horizon, will be meaningful.

FT: So we've touched on a few areas of interest in the portfolio: healthcare disruptors, caffeinated drinks. Is there anything else you would draw out from the blend of names that you own as being of particular interest right now?

MT: Well, I'd say the broad message is that it is a great time to be looking at a variety of different growth businesses. Growth is coming in lots of different forms at the moment, and I think a lot of it is being ignored as the market focuses on those large tech companies we mentioned earlier.

Copyright © Baillie Gifford & Co 2024.

So, we talked about caffeinated drinks and we found a number of rapid technology growing businesses. But there are also other areas. One that I would highlight is the infrastructure upgrade that's ongoing in America at the moment. So, America has to invest in its infrastructure today for two broad reasons. One, it's falling apart, it's been under-maintained. And two, because it needs to be adapted to a changing climate. So, there are a number of businesses that we own that sell into those problems.

To highlight a couple, we own a business called Stella Jones, which sells telegraph poles. Might not sound exciting, but America needs lots of them to cope, to deal efficiently with the energy transition. And we also own a number of gravel and cement companies, and you need a lot of that to repair bridges and roads. So, a great time to be a broad growth investor and I'd highlight infrastructure.

FT: And perhaps that might be an area where government spending would have an influence

MT: Yes

FT: And by the time we sit down again for the next one of these videos there will have been a US election. How does that figure in your thinking?

MT: Well, if you look at the broader financial media, it would be fair to say, or you would assume, that who wins the election in November, it must be of the utmost importance judging by the number of articles. And I decided to test that assumption, so I've written a paper on this. And what that paper showed is that actually broad stock market returns in the years just before and just after a presidential election aren't meaningfully different to any other year.

Of course, we don't invest in the market, we invest in individual companies. And I think the right question for us to be asking is, what drives those individual companies? And for me, that is innovation and entrepreneurship. And I think that is integral to the American character and it will continue regardless of who is in the White House. So, I'm more interested in what new products are coming to market, what entrepreneurs have dreamed up, what new ways of doing business. That's really where our focus is.

Copyright © Baillie Gifford & Co 2024.

FT: Brilliant. Thank you, Mike. Mike's paper will be out [in] mid-October, so please do look out for that on our website. I hope through today's discussion we've given you a sense of the variety of growth in the US Alpha portfolio, as well as the strength of operations from the companies within it. Thank you for watching, and goodbye until next time.

 Copyright © Baillie Gifford & Co 2024.

US Alpha

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

	2020	2021	2022	2023	2024
US Alpha Composite	-	-	-	-	31.2
S&P 500 Index	-	-	-	-	36.4

Annualised returns to 30 September 2024 (net%)

	1 year	5 years	Since inception*
US Alpha Composite	31.2	-	20.7
S&P 500 Index	36.4	-	28.1

*Inception date: 31 December 2022.
Source: Revolution, S&P. 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.

Legal notice: The S&P 500 Index is a product of S&P Dow Jones Indices LLC, a division of S&P Global, or its affiliates ("SPDJI"). Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). Neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors make any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors shall have any liability for any errors, omissions, or interruptions of any index or the data included therein.

Copyright © Baillie Gifford & Co 2024.

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.

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com
Copyright © Baillie Gifford & Co 2024.

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.

Copyright © Baillie Gifford & Co 2024.

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

Copyright © Baillie Gifford & Co 2024.

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
Copyright © Baillie Gifford & Co 2024.