Baillie Gifford™

US Alpha
Q2 investment update

July 2025

Investment manager Sacha Meyers gives an update on the US Alpha Strategy covering Q2 2025.

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

Sacha Meyers: Hello, and welcome to US Alpha's investment update for the second quarter of 2025. I'm Sacha Meyers, one of the strategy's portfolio managers. Today, I'll walk you through three key areas.

First, our performance over the quarter, which was strong. Second, our evolving portfolio positioning, which we have been reshaping around two core principles, backing conviction and appropriately sizing positions for risk. And finally, how we've translated this into specific portfolio actions.

So let's start with performance. I'm pleased to report strong results in both absolute and relative terms this quarter. Quarterly numbers are bound to be noisy in the short term, but we believe that our performance reflects some of our recent investment decisions. We're pleased to see that this outperformance came from bottom-up stock selection, which is how we want it.

Turning now to individual contributors, a clear pattern emerges. Many of our high-growth businesses performed well this quarter. Companies like **Cloudflare**, the cloud infrastructure pioneer, and **Applovin**, the mobile advertising platform, they drove much of our success. We also benefited from company-specific wins like **Dollar General**. Dollar General is a rural dollar store that's had a difficult few years. The company had inventory issues during the pandemic and focused on growth at the expense of investing in existing stores, which deteriorated the shopping experience. We took a holding after seeing evidence of a turnaround bearing fruit.

Looking now at our biggest detractors, they came mostly from being underweight, large index positions, riding the AI wave. We also had company-specific challenges with the pet food company, **FreshPets**, and **Enphase**, a business that provides components to solar roof systems. FreshPets is operating in a tougher consumer environment, and Enphase is facing uncertainty surrounding tariffs and the potential elimination of solar and energy tax credits. We think the business fundamentals for both remain attractive, but we will continue to monitor progress. Overall, this quarter's results confirm our commitment to maintaining exposure to high-growth businesses, even as we've made the portfolio more risk-aware. And this isn't about being more defensive. It's about being more intentional.

Which brings me to our evolving portfolio positioning. These past few months, we've been reshaping around two core principles. One, backing conviction, and two, sizing positions for risk. On the first point, we've been doubling down on our best ideas and selling some lower conviction ideas, all while maintaining sector diversification. On the second, we've reassessed the risk profile of several businesses and adjusted some position sizes to reflect our updated view. The result is a portfolio focused on fewer, higher-quality ideas, tilted toward durable compounders, while maintaining a meaningful exposure to higher-growth ideas.

So, how have we put this into practice? First, in terms of backing conviction, we've made targeted exits and entries. On the consumer side, we sold Yeti, the premium drinkware brand, along with Chewy, the online pet supply retailer. And as I mentioned, we took a new holding in Dollar General, in medical technology, we sold Dexcom and Insulet, two companies involved in treating diabetes. And we bought Procept Biorobotics, a surgical robotics company currently focused on surgically treating enlarged prostates, but looking to expand into prostate cancer. This trading illustrates US Alpha's ambition. We want to invest across the growth spectrum and capture winners of all shapes and sizes.

Second, on appropriately sizing position for risk, we've reduced exposure to businesses where share price ran ahead of operational progress. We took some profits from companies like the leading ecommerce platform **Shopify** and food delivery business **DoorDash**. We then deployed the capital into compounders like **AirCap**, the aircraft leasing giant, and businesses benefiting from demand and supply imbalance. Supply remains limited, in part, because of Boeing's difficulties, while travel demand continues to grow. And that's about it for this quarter.

So let's recap our key messages. Performance was strong, driven by stock selection and our high-growth ideas. This validates maintaining growth exposure while becoming more risk aware. Strategically, we sold some ideas with lower conviction and added to compounders while retaining clear exposure to high-growth ideas. And finally, the portfolio is more focused, yet retains US Alpha's growth character. We're building something designed to succeed across market environments, and I'm optimistic about our positioning.

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US Alpha

Annual past performance to 30 June each year (%)

	2021	2022	2023	2024	2025
US Alpha Composite (net)	-	-	-	13.0	19.9
US Alpha Composite (gross)	-	-	-	13.5	20.3
S&P 500 Index	-	-	-	24.6	15.2

Annualised returns to 30 June 2025 (%)

	1 year	5 years	Since inception*
US Alpha Composite (net)	19.9	-	19.5
US Alpha Composite (gross)	20.4	-	20.0
S&P 500 Index	15.2	-	23.0

*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.

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