EDINBURGH WORLDWIDE INVESTMENT TRUST AGM – MANAGER INSIGHTS

Douglas Brodie, lead manager of the Edinburgh Worldwide Investment Trust, reflects on the challenges of the past year, the current investment environment and how the portfolio is positioned for future opportunities.

The value of your investment and any income from it is not guaranteed and may go down as well as up and as a result your capital may be at risk. Past performance is not a guide to future returns.

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

For a Key Information Document for the Edinburgh Worldwide Investment Trust plc, please visit our website at www.bailliegifford.com.

Douglas Brodie: Hello, I'm Douglas Brodie. I'm the lead fund manager on the Edinburgh Worldwide Investment Trust here at Baillie Gifford.

2022 was a difficult year for our style of investing, and that's clearly captured in the performance of the Trust. In the year to 31 October 2022, the company's net asset value per share decreased by 40.3 per cent, the share price by 46 per cent, and the comparative index, the S&P Global Small Cap Index, by 6.8 per cent, all in sterling terms. We discuss this challenging period extensively in the annual report, and I direct you there for more detail. However, my hopes for this update are to cover some of the more salient points of that challenging year, reflect upon the investing environment, and update you on the portfolio and why we remain positive.

But first, I think it would be helpful to remind you of what we seek to offer with the Edinburgh Worldwide Investment Trust.

Since I took over managing the portfolio in 2014, the investment philosophy has been to seek ambitious, problem-solving companies with what we believe to be excellent long-term growth potential. And by identifying growth companies earlier, when they are small, we seek to benefit from growth during the most dynamic phase of a company's lifecycle. Crucially, we seek to retain ownership of successful companies as they grow and thrive, really driving their respective industries forward over subsequent years and reaping the rewards of their upfront investment as they unlock the opportunity and the profits ahead of them.

At its core, our approach is about harnessing technologies building future-relevant businesses. This requires patience, a long-term mindset, and a recognition that progress in young companies is rarely linear. In having owned companies such as Tesla and Dexcom, we think we can evidence the types of highly asymmetric returns that can be achieved through this style.

The frontiers of innovation and progress, really where we look for these companies, are very much alive and well. Yet the companies themselves, and those shareholders that invest in them, have had to navigate an unusually dynamic backdrop over the past three years. One heavily shaped by the pandemic, and more recently, of conflict in Europe and rising inflation. It's been a potent combination of really hard-to-predict events, the combination of which makes for much near-term uncertainty.

This period of uncertainty has shortened the time horizon of many investors and, we believe, lulled them into a mindset where near-term resiliency in what they invest is mistakenly viewed with higher priority than actual long-term relevance. And to us that feels odd, to have an environment where companies aspiring to grow, those really investing for growth, are seen as having an intrinsic fragility.

As a team, we've been extensively traveling over the past year meeting many of our holdings. In most cases, the underlying enthusiasm for what they offer remains very much undiminished. Yet the share price performance of many holdings in the portfolio has been sharply impacted by that changing backdrop. For the majority of companies held, this feels like a largely mechanical-based valuation reset as interest rates have risen and consequently their cashflows are deemed to be worth less. More recently, you could also say that this has been exacerbated as stock markets have begun to price in a lower economic growth assumption.

Our growth-orientated investment style will always leave us at the mercy of fear-driven market sell-offs. Simply put, the current areas of angst are not inputs that we think carry much insight when performing long-term analysis of a company. Really, our analysis skews heavily to understanding how the operations of a business might perform over a 10+ year timeframe. For most businesses, especially younger, smaller ones, that path will be most heavily influenced by both the decisions that a company takes and how its industry evolves.

The real unlock in working towards that goal is not the immediate finessing of complex valuation spreadsheets, but it's really the passage of time and the delivery of real tangible progress by the companies themselves. In a stock market that is increasingly impatient, we think the rewards to the brave and the patient look increasingly attractive.

Progress in some of our innovative healthcare companies has been very robust and clearly indicates how removed underlying business progress can be from some of the market's current areas of angst. The long-standing holding in Alnylam, the leading gene silencing company, had a successful readout on its high-profile phase 3 clinical trial in cardiomyopathy. Other notable contributors throughout the year would include ShockWave Medical, where adoption of its calcium cracking technology in arterial plaque removal has been very strong, and Genmab, where its lead drug for multiple myeloma is migrating to a much hoped-for standard of care and as excitement really builds around the company's novel antibody pipeline.

The private market has continued to be a source of promising opportunities for us and currently a little under 20 per cent of the portfolio by weight is in such companies. Edinburgh Worldwide's private company holdings have been making steady progress despite the volatility in financial markets. Most notably, SpaceX has been pivotal in keeping Ukraine's population online this last year and is now on the cusp of launching the most powerful rocket in history.

Amongst the largest detractors to the portfolio performance in the year of October 2022 were companies such as Ocado, Codexis and Upwork. These are companies are active in very different business activities, but they do share a commonality of being early enthusiasts of rewiring their respective industries alongside having a degree of discretionary spend attached to how their products and services are used. We see undiminished potential for these companies and have been content with how they continue to navigate a challenging environment. In the case of Ocado, we'd also note that, following the Trust's year-end, it has announced a sizable partnership with the leading grocery chain in South Korea, indicating to us that forward-looking grocers are still very much looking towards an automated future.

We exited 15 positions over the year, the most notable of which were Tesla, iRobot, and Seek. In selling Tesla we've closed out one of the most successful investments in the portfolio. We remain fans of the business and the broader adoption of electric vehicles. But our concerns were related to how much of the growth, the market share gains, the superior margin potential were reflected in the Tesla share price. And with numerous holdings elsewhere in the portfolio which we felt were in an earlier part in their lifecycle, with greater valuation upside, we sought to recycle capital.

We added 12 new names into the portfolio for the Trust year. These included companies such as Beam Therapeutics, with its focus on precision genetic medicine, and Doximity, a software company that produces tools for doctors to improve their medical awareness and to increase their productivity, and Echodyne, a private US company that uses metamaterial technology to produce high-performance radar systems at affordable price points.

Several of the names we added were companies that we'd actually looked at and admired before but we'd balked regarding the valuation upside. The extreme price corrections over the past 12 or so months have now given us a chance to get into some very high-potential businesses at what we feel are comfortable valuations. Through such purchases and buybacks of the company's shares, and really given the discount to net asset value they have persistently traded on, the invested gearing is now around the 10 per cent level.

Although by sector and geography the portfolio is optically concentrated in healthcare and the US, the companies in which we invest are attempting to solve globally relevant issues. The portfolio remains positioned for growth from young entrepreneurial businesses that we believe will shape our tomorrow, and for which the fundamentals will reassert themselves.

Thank you for listening.

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

	2018	2019	2020	2021	2022
Edinburgh Worldwide Investment Trust	-3.4	33.5	87.7	-20.9	-39.8
Index*	-9.0	20.4	12.6	16.4	-7.8

Performance source: Morningstar, S&P, MSCI, share price, total return in sterling.
*Changed from MSCI AC World Index to S&P Global Small Cap Index on 01/02/2014. Data chain-linked from this date to form a single comparative index.

Past performance is not a guide to future returns.

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The Trust's risk could be increased by its investment in private companies. These assets may be more difficult to sell, so changes in their prices may be greater.

Investment in smaller, immature companies is generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller, immature companies may do less well in periods of unfavourable economic conditions.

The Trust can borrow money to make further investments (sometimes known as “gearing” or “leverage”). The risk is that when this money is repaid by the Trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the Trust will make a loss. If the Trust's investments fall in value, any invested borrowings will increase the amount of this loss.

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