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**Sam Daniel (SD):** Hello and welcome to this fourth quarter update on the International Growth Strategy. My name is Sam Daniel and I'm a member of the Clients Department here at Baillie Gifford. I'm delighted to be joined by my colleague Katie Muir, who is an investment specialist on the strategy. Thank you for joining us today, Katie.

**Katie Muir (KM):** Thanks, Sam. Great to be here again.

**SD:** Before we dive in, a few housekeeping points. The information discussed in today's webinar is at a strategy level, and this may differ per the vehicle in which you're invested. As a reminder, the International Growth Strategy seeks to identify and hold a diverse collection of exceptional international growth companies. The strategy typically invests in 50 or more holdings with a long-term investment horizon of five to 10 years. A brief update on assets under management (AUM): firm assets, as at the end of December, stood at \$273bn, with the International Growth Strategy equalling \$45bn. And with regard to today's webinar, I encourage all of our viewers to please use the Q&A function and participate in the conversation. We're absolutely delighted that you can all join us, and we hope to make this conversation as impactful as possible for you. And if I'm not able to address any of the questions raised, I'll be sure to follow up after today's session.

Katie, how about we kick things off at a high level. Can you begin first with the market environment? And what were the drivers of market performance in the final quarter and overall for the year?

**KM:** Sure. Thanks, Sam. And morning, everyone. Thanks for joining us. International equity markets had a strong end to the year. They delivered another 5 per cent roughly return in the final quarter. And that topped off an exceptional performance year for international equities up about 33 per cent in US dollar terms. And that's the strongest year for international equities in the past 15 years, beating the US market too. And clearly, a weaker dollar boosting returns for US investors was part of that story. However, it was a tough environment for international growth investors like ourselves. When you look at what the drivers of market returns were, that was really skewed toward areas that are outside our natural hunting ground. So most notably financials, particularly European and UK banks, but also, you know, you saw defence companies, miners, utilities, telecommunications companies also performing strongly. And maybe just to touch on banks for a second, banks entered the year with very low starting valuations, you know, much stronger balance sheets than in the 2010s. They've been rebuilding their balance sheets since the financial crisis and interest rates that, while falling, remained structurally higher than the prior decade. During the year, bank earnings have held up better than the market expected, capital returns to shareholders through dividends and buybacks have been really strong, and valuations have re-rated sharply accordingly, and that continued in the fourth

quarter. If we turn to sort of more our typical hunting ground or sort of the bright spot within growth, that was quite narrow in terms of 2025. And I guess the area to highlight there would be a strong performance by the emerging market IT sector, particularly Asian tech names involved in the AI build out. I'm pleased to say we did have a few of those names, which I'll touch on later. But in terms of other style headwinds to highlight, quality, companies that are generating high margins, high returns on equity, and that have strong balance sheets, that was also one of the worst performing years for that style or that in history. If you look at the MSCI ACWI ex US quality index, for example, that rose just over 20 per cent during 2025 and that compares with a more than 40 per cent rise for the value index and about 26 per cent for the growth index. So, that presented another challenge to our strategy and to other international quality growth managers.

**SD:** Interesting. Thanks, Katie. So, as you say, despite a very strong year for international equities, this came with style headwinds for long-term growth investors such as ourselves. How did the strategy fare in terms of performance?

**KM:** Yeah, sure. From an absolute return perspective, the strategy delivered really strong returns, sort of high double-digit returns, but relative returns were disappointing. We lagged to that strong market in both the final quarter and the full year. So, some of that reflects sort of not owning some stocks that saw a sharp increase in share prices in some of those sectors that I mentioned before. And not holding stocks which rise significantly is definitely a source of frustration for us, you know, these missed winners or sins of omission. That we've talked about before weigh heavily on us. But in this case, it's definitely mitigated to some degree by the lack of long-term structural growth that we see for most of these businesses. But we need to challenge our preconceptions, of course, and we have tested whether there are structural growth arguments that we may have missed here. The closest we've come probably during the year and over the past couple of years is the defence sector, where the medium-term demand in Europe in terms of increased defence spending and the ongoing war in Ukraine is quite clear. We've met with and put a handful of European defence companies through our 10-question research framework that we use for all new ideas and existing holdings. But on balance we believe that marginal spending in defence is likely to go on things like drones and software rather than the shells, missiles and tanks that are a large part of what the incumbent European defence companies provide. And, you know, we heard from a former US Army general during the quarter, and he talked about how little innovation happens between conflicts. And then a conflict starts. And it's actually rarely the incumbent companies who are at the forefront of innovation in the field. I think, you know, putting that together, we're not inclined to chase some of these recent winners.

**SD:** Great, that's some helpful portfolio context there, Katie. Can you dig a bit deeper into performance at the stock level, covering the quarter and year, and at first, can you focus on the stocks that we did own and do own and that were the main detractors over those periods?

**KM:** Yeah, sure. I mean, in a portfolio of 50-plus investments, you know, there will always be some that are performing less well. But in many cases, we believe their difficulties are temporary and mainly a result of valuation compression or a change in sentiment by the market rather than any sort of impairment in their fundamentals. Focusing in on the quarter, some of the detractors included Ferrari and Spotify. Ferrari, the luxury sports car manufacturer, it was weaker in share price terms following its capital markets day in October. One of the team was there where they outlined 2030 targets around growth and profitability, but that really underwhelmed the market. And this was despite, Ferrari's got a long record of very prudent guidance and strong execution where it's consistently exceeded expectations. We are less concerned than the market is about its ability to deliver growth from here. It's been a top contributor to long performance of the strategy, and we've trimmed it a couple of times over the past couple of years on the back of that strong share price performance and to better align our position sizing with our conviction level. But overall, we remain confident in Ferrari's long-term compounding potential which is really underpinned by unrivalled brand equity and a deliberate control of its supply. And for Spotify, Spotify was a top contributor for the year, but it was weaker in the final quarter. Third quarter results were really strong from our perspective, you know, continue to show operating progress. Users increasing 11 per cent to over 713 million now, and its paid subscribers growing 12 per cent to more than 280 million. Operating income continuing to expand record cash flow generation. But the shares weakened as investors reset their near-term margin expectations. You know, Spotify has been a top contributor to the longer-term performance of the strategy as well. And we remain confident that pricing, product innovation, advertising efficiency and the expanding ecosystem it has on its platform can continue to widen margins over time. And that was kind of reinforced during the quarter by the launch of Spotify recommendations within ChatGPT. Just to touch on the full year, some of the portfolio software and IT service names saw weaker share prices as the market grappled with AI's ultimate impact on some of their business models. Examples in the portfolio include Wix.com, which is a website development platform, and the Australian software business Atlassian. However, both continue to grow revenues at double-digit pace, and we think will successfully adopt AI in their product offerings, which will ultimately make their businesses and platforms more valuable rather than less. The other name to mention that was particularly weak was WiseTech Global, the logistics software provider. And that detracted to performance despite continued strong operational execution at the company. And the shares faced additional pressure from governance scrutiny regarding the founder's personal conduct and continuing role in the business. We've engaged extensively with the company, will continue to monitor the accelerated succession plan they've put in place. But ultimately, we remain confident in WiseTech's long-term position, you know, as the mission-critical software or operating system for global trade. And we actually added to the position earlier in the year on weakness.

**SD:** Thanks, Katie. You've covered, helpfully, the stocks which detracted from performance over the period. Let's turn to the positives and what stocks helped performance over the quarter and the year.

**KM:** Yeah, sure. The portfolio semiconductor supply chain holdings, including Advantest, ASML, TSMC, they all made significant contributions as the year progressed and indeed in the final quarter as well. The shares of Advantest, for example, which is the leading provider of chip testing equipment, shares more than doubled during the year and they were really buoyed by the soaring test intensity of AI chips. Advantest results, as a result, operational results exceeded expectations that the market had thought for it and management had been meaningfully raising their guidance talking about sustained demand tied to AI datacentre investment and also improved visibility of their order book. We first invested in Advantest in the strategy in June 2024 and it's been a top contributor to performance since. And this really reflects its mission-critical role in advanced testing and its deep customer relationships, attributes which we think support its prospects going forward, both as semiconductor demand increases but also as complexity continues to rise. It was also pleasing to see newer positions, including Swiss dermatology business, Galderma, and CATL, which is the world's leading battery manufacturer, both contribute positively during the year. Galderma has been rolling out a new treatment for eczema, and that's gaining strong commercial traction. And that's really complemented the steady growth in its core injectable aesthetics franchise. And at the same time, CATL has been delivering double-digit revenue growth, margin expansion and really robust energy storage shipments, which is another leg of its growth case. So it was great to see pockets of really strong operational performance being rewarded by the market, but obviously disappointing that it wasn't broader. But overall, we're pleased with the operational performance of holdings, the company fundamentals, which we believe will drive their share prices in the long term. And when we look at portfolio-level outputs, these were also strong last year. If you look at for 2025, the portfolio delivered overall earnings growth of more than 30 per cent. And that compares to around 11 per cent for the index. So a big, meaningful gap between that. The challenge really for the portfolio, as I said up front, was valuation or that change in sentiment during the year. For many of our holdings, which meant that the portfolio's price-earnings ratio declined by around 10 per cent while the index enjoyed a strong re-rating. In simple terms, our companies grew much faster, but the market was willing to pay less for that growth. And that's frustrating, but it's not unprecedented, particularly over a short period of time when we know that changes in return are often dominated by changes in valuation. But we know that this is often the time when our patient approach can really pay off by sticking with these companies, even when they've seen weaker prices.

**SD:** Great. Thanks, Katie. So against that backdrop, the question that comes to mind is how do we keep searching for the next set of opportunities? In that vein, let's turn to research and activity. What areas have the team been guiding further research into?

**KM:** Yeah, sure. So, you know, the team continues to travel widely, to meet both existing holdings and potential new ones. You know, that remains an important part of our process, as does seeking wisdom from beyond the financial world. And I'll give you a few examples of that in a second. In the last few months of the year, members of our team were in Latin America, Singapore, in Vietnam, Japan, the Netherlands, China, India and the US. And over the course of the year, we've researched companies across a broad range of industries, business models and growth drivers. We've also continued to meet with academics, authors, industry bodies and

private company founders to gain insight. For example, last quarter we caught up with Professor Brian Arthur. He's an economist and expert on technological change based at the Santa Fe Institute and we've been fortunate to meet with many times over the years, but in our most recent discussions he suggested that generative AI is bringing us the most important set of changes we've ever had in our world, you know, the biggest since the invention of the printing press. So, that's a big claim and actually, you know, it's consistent with what he's told us for a number of years now. We also heard from a former US Army general, as I mentioned earlier, and we've had interactions with IMEC, which is the Belgium-based research institute for the semiconductor industry, plus fascinating conversation with the historian Adam Tooze into some of the big geopolitical shifts we're seeing in the world.

**SD:** That's really interesting, particularly the framing of generative AI being the biggest revolution since the printing press. It's a big statement, indeed. It's also quite refreshing to hear that our research continues to be wide. Can I ask, has any of this research translated into portfolio activity? And by that, I mean, has there been any new investments or complete sales from the strategy over the period?

**KM:** Yeah, sure. So maybe focused on the quarter. In October, we initiated a new position in SK Hynix, which is a leading South Korean manufacturer of memory chips. Its products span high bandwidth memory, or HBM, as it's known, which is increasingly used alongside AI processors, as well as DRAM, which is working memory, and NAND storage. But our investment case is really anchored in the view that HBM, so high bandwidth memory demand, is becoming more structural. As AI models scale and inference proliferates, memory bandwidth is emerging as a critical bottleneck in AI infrastructure. And if you think about NVIDIA's GPUs, the chips that are powering AI, they're like a Formula One race car. They're built for incredible speed and power. And with normal memory, it's like the car is stuck in traffic, so it can't process the data fast enough. Whereas with HBM, it can move data at extraordinary speeds. It means NVIDIA's chips can realise their full potential power and potential, and really that's what's powering these large language models. And SK Hynix is widely regarded as a technological leader in HBM, and we believe that this advantage can support sustained growth and attractive long-term returns despite the inherent cyclicity of the memory markets. But given the common growth driver for semiconductor stocks, you know, including AI, this new position was funded by reducing some of our existing semiconductor holdings, primarily at Advantest following its exceptionally strong share price performance. And so there were no complete sales during the quarter. We actually further trimmed Advantest and the portfolio's semiconductor exposure in December, again on the back of strength in the final quarter, and we recycled some of that capital into areas of the portfolio that we believe are you know, lowly correlated or uncorrelated with the AI theme, and where share prices have been weaker, but we maintain conviction in the longer term case. For example, we added to positions in endoscope maker, Ambu, factory automation specialist, Keyence, and the consumer beauty giant, L'Oréal.

**SD:** Great, that's helpful to hear of the trading which took place during the quarter. So before we finish up today with strategy position, we've actually received a question from the audience. It's kind of framed of two questions. To begin with, Katie, I'll allow you to choose which one

you'd like to take first. It begins with, what is your outlook for the US? And the second part of that question is, can international markets continue to outperform if the US dollar was to become stronger again. Which leg of the question would you like to go first?

**KM:** I'll maybe start with the last one first. So US dollar strength weakness has clearly been a tailwind to international equities. But even in periods of strength, our holdings or certain holdings in the portfolio still managed to deliver returns that beat the US market. Names that I've mentioned like ASML, which doubled last year, even with a stronger dollar, we'd still expect these companies to do well. What's underpinning that is growth. We think these companies can deliver, you know, kind of double-digit growth and that stands them in good stead to offset any kind of headwind they might get from US dollar strength, for example. As to whether, you know, US markets, I think it was a question about outlook for the US market. I'm obviously focused on international. So, you know, and I wish I had a crystal ball, but I don't. But yeah, I mean, ultimately, you know, I'll come on to why we're excited about our portfolio. But, you know, clearly, America has had a very strong run for a long time, driven by, some exceptional tech companies, we think, there's some structural themes that are allowing those companies to do well, and they should continue to do well, you know, you're seeing how they are, really adopting and embracing AI. But ultimately, we think there's more exciting opportunities and opportunities for diversification outside the US. And that's where we're most excited.

**SD:** Thanks, Katie. Yeah, I suppose if we want to end on the strategies positioning. So as we look forward from here, what gives you and the team confidence that it can deliver strong investment returns?

**KM:** Yeah, sure. You know, maybe starting with positioning, there are several areas where our enthusiasm remains very high. So, you know, no surprise, the enablers of global digitisation, the picks and shovels of AI, the semiconductor businesses I've spoken about earlier that have been, positively contributing to returns. We've got a very intentional position or bet here in the portfolio, makes up around 20 per cent of the overall portfolio. But we think this is one of the best ways to get exposure to this theme. Many of these companies occupy dominant or near monopoly positions in the semiconductor supply chain. ASML in lithography, TSMC in advanced manufacturing, Advantest in testing. We think they're not just being lifted by this theme, they're actively driving it and they're critical enablers of continued technological progress. These businesses can be volatile and they are correlated in the short term as well, in share price terms, so we are very aware of that and that's why we've been managing overall exposure to the portfolio at the portfolio level quite carefully. But over the long run we believe they represent the most robust way to access AI and tech-driven growth and one of the most exciting areas in the international opportunity set, and something that you can't get as much direct exposure in the US as you can outside the US. I think the second area is the digitisation of consumption, more broadly, but particularly the digitisation of emerging markets, so companies such as MercadoLibre, such as SEA in south-east Asia, and Nubank in Brazil, they're continuing to benefit from long-term shifts in how people consume, pay, save, and entertain themselves. And these businesses are embedding themselves deeply into the daily life of consumers and building ecosystems rather than single products. By that, I mean if they're dominant in one thing, like e-

commerce, they're finding other growth avenues to extend their growth runway. We think that creates resilience, optionality and long-run growth runways. Third area is our exposure to unique brands and IP-led franchises, so companies within that I would include as L'Oréal, luxury names, Hermès and Ferrari. Plus some of our newer holdings over the past year, Brunello Cucinelli, which is also a luxury goods, Games Workshop, which is a sort of miniature tabletop game and figurines business. These businesses do not rely on rapid disruption, but instead they're compounding steadily through their scarcity, their brand integrity and disciplined reinvestment. And then the final area that I'd probably highlight is we're increasingly encouraged by some of the world-leading innovation that's happening outside of the US, particularly in China, and across areas such as electric vehicles, batteries, and biotechnology. You know, examples in terms of, recent buys over the last couple of years for the portfolio include the Chinese EV maker BYD, which is now the largest EV maker by number of vehicles and revenues. It's overtaken Tesla. You know, there's the battery maker CATL, which is a global champion, and also Akeso, which was a Chinese biotech we bought last quarter, which we think potentially has the next blockbuster cancer drug. But in terms of confidence, as we look forward, I'd kind of boil it down to three things. The first is operational performance. Portfolio companies are executing well, especially the largest holdings, such as Spotify, MercadoLibre, Adyen, TSMC and that's important as this is a concentrated high conviction portfolio where the top 15 holdings make up more than 50 per cent of the portfolio. The second area I'd point to is the portfolio's growth characteristics. So when you look at forward-looking sales or earnings growth or some of the operational performance figures I highlighted earlier, these remain well ahead of the market two to three times and that bodes really well as we look forward. And then the final area is, you know, as I highlighted before around positioning, is really the portfolio's exposure to structural growth themes and megatrends, and our confidence in the company management teams of portfolio holdings to be able to capitalise on these and adapt as things change. So, because ultimately we believe that over time this superior earnings growth, these structural growth themes, will be reflected in superior share prices and portfolio returns as ultimately share prices follow fundamentals over the long term.

**SD:** Fantastic. A note filled with confidence to end on. So we've now reached the end of today's session. A big thank you to you, Katie, for your time today.

**KM:** Thanks, Sam. Pleasure being here.

**SD:** And a big thank you to all of our viewers who have joined. If you'd like to explore anything that was discussed today in further detail, please reach out to your respective Baillie Gifford representative. We'd be more than happy to open up a conversation. Next month on February 23rd, Katie will be hosting a webinar alongside portfolio managers Tom Coutts and Robert Wilson discussing reflections on 2025 as well as our outlook going forward. You can find a link to sign up to this webinar along with some of our latest content released by the team on the resources tab on your screen. There is also plenty more content available on our website and LinkedIn. So please do follow and sign up to our monthly mail-ins in order to make sure you receive this latest content. Today's webinar is part of our regular quarterly series with our private companies and emerging market strategies up next being held tomorrow and Thursday.

Please do tune in if time allows. And finally, I'd like to give one last thank you to all that have joined today. We look forward to hosting you again next quarter.

## International Growth

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

	2021	2022	2023	2024	2025
International Growth Composite (gross)	-9.6	-35.9	15.7	9.0	16.8
International Growth Composite (net)	-10.1	-36.3	15.0	8.4	16.1
MSCI ACWI ex US Index*	8.3	-15.6	16.2	6.1	33.1

### Annualised returns to 31 December 2025 (%)

	1 year	5 years	10 years
International Growth Composite (gross)	16.8	-3.1	9.3
International Growth Composite (net)	16.1	-3.7	8.7
MSCI ACWI ex US Index	33.1	8.5	8.6

\*MSCI EAFE Index prior to 30 September 2018

Source: Revolution, MSCI. 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.

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