Baillie Gifford™

Long Term Global Growth
Q3 investment update

October 2024

Investment manager Kyle McEnery and investment specialist Jonny Greenhill give an update on the Long Term Global Growth Strategy covering Q3 2024.

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

Jonny Greenhill (JG): Hello and welcome to this update on Long Term Global Growth. As a reminder, Long Term Global Growth aims to deliver exceptional long-term returns for our clients by investing in a concentrated portfolio of what we believe to be the world's leading growth companies. My name is Jonny Greenhill. I'm an investment specialist in the strategy. And I'm delighted to be joined today by Kyle McEnery, an analyst in the Long-Term Global Growth team.

Kyle McEnery (KM): Delighted to be here.

JG: I'd like to spend a bit of time today, Kyle, talking about performance and understanding how you're positioning the portfolio. So the investment horizon of Long Term Global Growth is five to 10 years. And if we look at performance of the strategy over that time horizon and even further back, going back to the 20-year history of the strategy, it's been really exceptional net of fees, really strong returns. But what that hides is some of the shorter-term periods of volatility, which is inherent to this strategy. And the past five years are no exception. You know, you had the peak of the pandemic where performance was exceptional. You had the massive drawdown in 2021, 2022, a bit of a rebound, a bit more of a lacklustre year so far this year. That's a lot. It's a tough environment. But when I speak with you and I speak with the team, you are positive. You're optimistic. You're more excited than ever, I would say. What explains that?

KM: Well, I'm always excited. But aside from that, I think when I look at the portfolio, the main thing that gives me a lot of comfort is the fundamental growth. So if you look at the last 12 to 18 months, most of LTGG's performance has actually come from this underlying fundamental growth as opposed to re-ratings of valuation, which is in stark contrast to the index. Even if you look at individual holdings, what you're seeing is that, again, that underlying fundamental growth is actually outpacing what we're seeing in share price appreciation. So we know that over the very long term, share price appreciation matches fundamental growth. That is the driver. So when I look at the portfolio, I get very excited because I think that the fundamental growth that we're seeing now sets us up for huge potential for share price appreciation over the very long term. But the excitement isn't just about what we're seeing with the current portfolio. I think there's also a lot of excitement in terms of the opportunities that this environment is presenting for us. So frankly, we think that there are a lot of great growth companies that are just being overlooked at the minute. There are some companies that we've been investing in recently – I'm thinking about e.l.f. Beauty, Samsara, Nubank – and honestly, there's no reason to think that one of these companies can't be the next NVIDIA, Amazon, Tesla or Hermès for LTGG [performance] in the decades to come.

JG: That's really striking. You're saying that there are these opportunities that are being overlooked. How then are you positioning the portfolio? And maybe here you can talk a bit about the activity you've been undertaking over the past few months. How are you positioning the portfolio to really exploit those opportunities? And where are you recycling some of the funds from?

KM: Sure. So there's probably two areas to touch on. But let's start with some of the activity we've done in the electric vehicle area. First of all, we've trimmed Tesla a little bit. So Tesla has obviously been a very longstanding, very successful investment. There's been an evolution in the investment case, which, frankly, is very exciting. There's an acknowledgement that the main auto business is maturing, which, by the way, just shows how successful Tesla's been when I think about what we invested in all those years ago. But one of our colleagues, Michael, visited them this year. And he was one of the first investors, actually, to get a glimpse of their new robotics program. And I think it highlights to us that Tesla's probably evolving into being an autonomy company, a robotics company, rather than just a car company. So honestly, we're very excited by both autonomous driving and robotics as the future for Tesla. We think that the combination of these two new businesses could be bigger than their current business today. However, we acknowledge that with this evolution of thesis, there is a widening of the range of outcomes. So we've positioned it accordingly. At the same time, we've invested a little bit more in Rivian. We think Rivian is a really important company in terms of the continued adoption of electric vehicles. If you look globally, the US is actually lagging behind in terms of adoption of EVs. We think one of the reasons here is that when it comes to one of the biggest market segments, which is large cars, pickup trucks, there really aren't that many compelling products. I think Rivian is really addressing that. And furthermore, Rivian has recently entered a joint venture with Volkswagen, which we think is excellent news because we think it's both going to limit the downside from here, but it also really strengthens that upside. So we're really excited about that.

JG: That's interesting. There was, of course, another bit of portfolio activity during the quarter, which perhaps you could say a few brief words on, which is Kering, the luxury group. A longstanding holding in the strategy to 16 years, one of the top contributors to performance since inception. Why, in a nutshell, did you sell?

KM: In a nutshell. In a way, its main brand, Gucci, has been a victim of its own success. Under the previous creative director, it probably flirted a little bit too much with the cyclical fashion industry, and as a result has fallen out of fashion. And due to its success, it's now become quite a big part of the group. So there are some lingering concerns about the longevity going forward. We thought it was the best time to step away from what was a very successful investment. But what I'd like to point out, though, is that you move away from one investment, but then there are others. And we think that we found this year a couple of companies that have that longevity that Kering had for us. One is Moncler, which is a luxury winter wear company. And the other one is [Kweichow] Maotai, which sells the premier luxury drink in China. And it's not about the luxury. That's not what connects them. What connects them is this idea that these are companies that we think have unbelievable, durable growth opportunities; that we think that we could own these companies for 10, 15, 20 years, much like we held Kering for 16 years. So then we're very excited about that.

JG: Interesting. OK, so plenty of opportunities, again. There is, of course, the big elephant in the room that we have not yet addressed, which is quite surprising thus far in the conversation to not have spoken about it. That is: artificial intelligence. An area that you have quite a bit of expertise in. How are you thinking about the positioning of the portfolio in regards to AI, and specifically NVIDIA, the largest holding in the portfolio, one that you've been recycling some funds out of in the past 12 months? What are your thoughts?

KM: Yeah, Artificial Intelligence is quite broad, so there's potentially, you could say, quite a lot of exposure. But I still think NVIDIA is probably the most interesting, because it's one of our largest holdings. And also, it's probably one of the most famous noisy stocks in the world. But I find it fascinating, because it's a company that's done exceptionally well – it's huge, it's one of the biggest companies in the world – yet, I think it could be much, much bigger than what it is today. And that's almost a strange feeling. But I really think that comes to the core of what we're about, looking at the upside and really understanding where companies can go. For me, I believe that AI is going to reshape the economy over the next 10 years. And I think that compute is the most important part of that. I really think NVIDIA is just essential for this transition. And frankly, I think that despite the fact that it's such a famous, large company, I think people are struggling to engage with what the upside for NVIDIA actually is, which is really interesting considering its size.

JG: And this is a company that you are reviewing right now. And in a nutshell, what are the couple of questions you're really keen to dig into in that review?

KM: OK, well, is this a bubble? Which I don't think it is. Will Nvidia continue to dominate? I think they will. I mean, to put into context, AI and machine learning has been a wave that's been coming for a very long time. And NVIDIA has been absolutely crucial to everything that's happened over the last 15 years. And I think they will continue to be going forward. And then lastly, it's trying to understand our view relative to the market. And again, I think a lot of other participants are looking at this kind of sideways. They're using analogies: “This is like the internet”, “It's going to come back”, “It's going to mean revert”. But when I just look at the technology and the possibilities, it's not what I'm seeing.

JG: Interesting. All right. Well, that's a good teaser for what's to come. I think we'll have to leave it there, Kyle. Thanks very much. Just to recap, based on our conversation, I hear the fundamentals in the portfolio are strong, they're strengthening, and outpacing share price performance. And for us, that presents great opportunities, right? And this is where you're thinking about the positioning of some of the names in the portfolio today. Excellent. Well, thank you very much. Thank you for tuning in. And we hope very much you'll join us again next time.

Long Term Global Growth

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

	2020	2021	2022	2023	2024
Long Term Global Growth Composite	102.9	25.9	-48.8	19.9	39.1
MSCI ACWI Index	11.0	28.0	-20.3	21.4	32.3

Annualised returns to 30 September 2024 (net%)

	1 year	5 years	10 years
Long Term Global Growth Composite	39.1	16.9	15.0
MSCI ACWI Index	32.3	12.7	9.9

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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