

As with any investment, capital is at risk. Past performance is not a guide to future returns.

**Hello and welcome to this programme from Baillie Gifford, the latest in a series of webinars, where we talk to the managers of the business' different investment trusts. Today, we're talking to Chris Davies, comanager of the Baillie Gifford European Growth Trust. My name is Amy Maxwell and I'll be talking to Chris about how he runs the trust for about 25 minutes. We'll then be taking your questions, which you can submit at any time via the Q&A box. Welcome, Chris. Thanks for joining me today.**

Thanks, Amy. Good to be here.

**Let's start with the big picture. European equities haven't really been the market darling. You and your team remain confident. What's giving you optimism?**

I think the simple answer to that is that change is afoot and change often breeds opportunity. I think when we look around Europe, we see a growing realisation by governments and by the European Union, European Commission, that if Europe is to thrive in this new world, it has to change in quite radical ways. Business as usual is not going to cut it when you have very large economies to compete with. Whether it's China or India further down the line. Of course, the US isn't going anyway either. If you look back over the last five years, there've been quite a few jolts that I think have really changed the thinking.

Whether it's the pandemic or Russia's invasion of Ukraine. That rampant inflation that followed, etcetera. I think there are a couple of examples where these jolts have now really started to wake people up. Let's start with Germany, for example. There was a brief period, I think, where people were calling it the sick man of Europe, which I think was a term ascribed to the UK some decades back. They have announced plans to spend an enormous sum of money. For example, they're looking to lift their defence spending by two-thirds by 2029. They've announced plans for a €500 billion infrastructure fund, which is worth about 11% of last year's GDP. What happens in Germany matters for the rest of the block. It's the biggest economy.

It accounts for about a third, roughly, of the EU's GDP. That's a big change. The other major economies, there's a bit less room to manoeuvre, but what we see there is that the EU is working on various other forms of stimulus. Some of which has already been announced, like Readiness 2030, which I think was formerly known as Rearm Europe, which is a plan to get €800 billion of funding together to strengthen Europe's defence infrastructure. I think there could be much more to come. On top of this, there's also a growing desire for deeper structural reform. Last year Mario Draghi, who

was the former president of the European Central Bank and then briefly, the prime minister of Italy, he wrote a report on the competitiveness of Europe.

His conclusions were actually pretty stark. His view is basically Europe has to adapt if it's going to compete in the world and he made a series of recommendations. Now, whether Europe adopts all of these remains to be seen. I think there was a very surprisingly positive reception from my perspective. One thing that's been talked about, for example, which Ursula von der Leyen has made a strategic priority of hers, is this deepening and integrating of capital markets across the European Union. The aim is to reduce fragmentation and improve access to financing. Boost retail investment. This year, for example, the European Commission has launched the Savings & Investment Union Initiative, which is aiming to mobilise a lot of the European Union's household savings.

Interestingly, Europeans actually save a lot more than Americans. There's potentially a lot of untapped resource there. It's trying to get this money channelled into productive investments. I'm sure we can all think of examples of European companies that have decided that they don't want to list in Europe. Perhaps one of the more high-profile ones recently, would be Klarna, the Swedish fintech company that decided before pulling its IPO because of market conditions, that it was going to list on the New York stock exchange. We can't have that happening in Europe. We need have our best companies, our most innovative companies staying put. Then you've got other initiatives like the European Investment Bank planning to pump €70 billion into the development of European tech firms over the next few years.

I think the bottom line is that there is a lot of change happening. Some of this is going to reflect in corporate earnings much sooner than others. Fundamentally, I think there's much greater appetite for change than there has been for some long while and signs that it's much more than just talk. I think that bodes well for Europe's future and I think that presents a lot of opportunities for investors.

**Do you think investors are potentially underestimating the scale of the mindset shift? As you mentioned, you've got 50 billion into European tech firms, you've got 800 billion in increased infrastructure and defence. All of these industries will have ancillary providers which make great growth investments I imagine.**

I think so. The challenge with the European Union is going to be getting all of these countries together and agreeing a plan forward. That hasn't been that easy. I think fundamentally, when you look at the way the world is changing-, I'll give you an example. China. I think China is potentially a very big risk to Europe. What they have is an incredibly well-organised economy. They have put enormous amounts of resource into building very large domestic industries. Everything from white goods to

batteries and beyond. They've become very good at this. Renewable energy will be another one. China is really, really building out a lot of renewable infrastructure.

At some point, those domestic producers and we're already seeing this from some companies, are going to want to go abroad. You need, I think, to be looking east to what the Chinese are doing. Not just the Chinese, there are other big emerging economies that are going to pose a significant threat to European industries at some point in the next 20 years. We need to spur as much innovation as possible. We need to make it possible for European firms to raise capital, to scale up. I think that's been one of the challenges that block has faced, but there's nothing like a shock and a threat to really get people working together on this.

My hope would be that it really is different this time and that the European Union can really start to coordinate its very significant resources to address some of these problems. If it's able to do that, just on the basis of where valuations are today in Europe, the market just isn't capturing that.

**Let's talk about some of the portfolio companies. Let's begin with a fantastic success story of European innovation. ASML. It's a cornerstone holding and arguably, one of Europe's most innovative companies. What continues to excite you about ASML? Where is future growth going to come from there?**

ASML is, I think, the ultimate challenge to anyone who thinks that Europe can't come up with great companies. Yes, it has its structural challenges, but there are plenty of companies that have been able to break through and innovate and establish world-class operations that lead in their respective fields. ASML is absolutely one of them. We don't think much has really changed about the long-term prospects for ASML. As a reminder, it makes lithography machines. Lithography is a vital part of the semiconductor manufacturing process. ASML are very much at the leading edge of that. There are two types of machines that are out there. One is called a DUV machine and the other is a EUV machine, extreme ultraviolet.

With the EUV machines, ASML basically has a monopoly. Nobody else can make these machines. Full stop. These are the machines that are going to be really crucial for manufacturing advanced chips. Particularly at three nanometres and below. These are really important for AI applications, which are starting to really proliferate. High bandwidth memory. High performance computing applications. As you see some of these things accelerate, [marker 10:00] particularly AI, which we're already starting to see in our own daily work, you're going to see customers like TSMC, Samsung, Intel, etcetera, really increasing their investments in EUV. As I said, there is basically no competition.

**The valuation is fair.**

The shares have fallen some 35% since July last year, because there've been concerns over the short-term dynamics in the market. Semiconductors is a cyclical business, but it's a cyclical business that rises over time, rather than stagnates and undulates around a fixed point. There will be short-term cycles. Our view is that if you take a long-term perspective, that unlocks a great deal of potential because right now, the market is fixated on the short-term. Whereas, that long-term potential is really not being discounted. I'd also say that the semiconductor value chain is much broader than just ASML, of course. Europe actually has other leading companies such as ASN International, which is actually the company that ASML spun out of a few decades back.

They're involved in a slightly different part of the process, which is called etch and deposition. That is actually seeing really significant growth and that's going to become increasingly important over the next five to ten years. That's another company that we hold in the portfolio that's very much playing on the growth of the semiconductor value chain.

**Let's talk about another cyclical industry, the aviation industry. I know Ryan Air is among your top-ten and it may seem to some, surprising to be in a growth trust. What role does Ryan Air play in the portfolio? Where are you seeing growth?**

The flippant answer would be that it's a growth company. If you look at the last decade, for example, revenues have actually compounded at about 10%. That includes financial year 2021. Their financial year ends in March. Surely you and everyone watching can remember what happened back then. Most of the planes were on the ground and their revenue in that financial year fell about 81%. Being able to grow 10% compounded, over that ten-year period is really quite extraordinary. How have they done it? I think there are a few points I would make. The fundamental thing you need to understand with Ryan Air is that they are completely zealous about cost. Everything they do, they do to manage the unit costs.

They've got these charts that they present in their investor presentations, which anyone can go and look at. They're online. Where they talk about the cost per passenger. They are regularly, by far, the lowest player in the industry. Now, the inputs to that are various. For anyone who's taken a Ryan Air flight, you might remember having parked quite far away from the airport terminal because it's cheaper. You might remember having had two sets of stairs attached to the aircraft to board and disembark passengers much faster. You might have noticed it's the cabin crew that cleans the plane. They don't get a separate cleaning crew on. There are lots of other ways in which they reduce cost in their operations. Another thing they do, which I think is really important, is they buy planes cheaply.

They only buy one type of plane. The whole fleet looks exactly the same and that saves you a lot of money on maintenance. It saves you on training because you haven't got to train people to fly different types of aircraft. It saves you on inventory costs as well because you haven't got to hold loads of spare parts for different planes, which a lot of the big legacy airlines have to do. Back to this point about buying cheap planes. Michael O'Leary, who of course, is the very charismatic CEO of Ryan Air, in a crisis his motto seems to be 'don't waste it'. He goes out in the middle of a crisis, when other people are terrified of aviation. There's a story from 2001 in the wake of the tragedy of September 11<sup>th</sup>, everyone thought aviation was going to be in terminal decline from that point on.

Michael O'Leary famously placed a very large order with Boeing at deep discounts. He did exactly the same during the pandemic. Because Ryan Air owns all its planes, what that does is, it embeds falling unit costs over time. If you think back to the pandemic, there were basically no other airlines, apart from one or two, that were in a position to order more planes. If you can be greedy while others are fearful, then that puts you in a very strong advantage in the future. If you look at some of the market share gains that Ryan Air's enjoyed because of these unit costs being really, really low. In Italy, for example, their market share before the pandemic was maybe 27%. It's now well above 40%. In Poland, where they've gone from mid-20s, to roughly mid-30s.

When you are really zealous about costs and that's a cultural thing as well. They're obsessed with it. It's very difficult for people to compete with you. You gain market share. You can offer low fares. You can stimulate new demand and ultimately, you can grow.

**We've got an absolute zealous focus on cost structure, which allows you to operate a very lean company and compound at a really impressive rate.**

Exactly and there are lots of other examples I can think of. One of the other great examples, and this is not a listed company any of us can invest in, but Aldi, which I'm sure lots of people watching who live in the UK will have come across. They've got a very similar model. Costco in the US. It's a great model, it really, really works.

**Let's talk about another key holding. Topicus tops the portfolio. What's the investment thesis here and how does it reflect your view on scalable European software?**

Topicus was basically spun out of a company called Constellation Software. Constellation Software is actually a Canadian software company and it was setup in 1995 by an entrepreneur called Mark Leonard. It listed in 2006, I think. Since then, it's up over 26,000%. It's done okay. What's the story? It has grown by going out and buying software companies. These software companies tend to be small. Probably two to five million of revenues and they operate in very specific niches. Think for

example, software that operates golf clubs or cemeteries. What's nice about this business is that customers tend to be quite sticky because their software's really important to them, it helps them run the whole operation.

They're risk averse. They don't want to rip it out and replace it with something else. They know it works, so they're quite happy to stick with it. That gives you, as the software provider, some pricing power. Because it's software, it's a very capital light business. It's very cash generative. What Constellation has done with that cashflow, is it's gone out and it's done lots of acquisitions. They've grown at about 20% per annum over the last decade. Most of that has been doing acquisitions. Topicus is their European spinoff. They've been going since about the last 1990s, early 2000s that the origins of this company can be dated back to. Constellation actually bought the predecessor of Topicus back in 2014.

Since then, it's basically been rolling up European software companies. It listed separately in 2021. We have held it since around about that time, but it's basically the same story. Europe is much more fragmented than North America because it's harder to transport software across European borders. You'll find a crematorium software provider in France. You'll find one in Germany. You'll find one in Italy, for example. It's a more fragmented market, which is quite appealing. The whole idea is basically taking the cash that you generate internally and deploying it on acquisitions.

**Let's talk about some of the private companies in the portfolio because you do have a sleeve which you can invest in unlisted companies. It would be remiss not to talk about Northvolt. This has been a headline grabbing position. Could you recap on what was the investment case and how the investment turned out? Maybe, some of the learnings from that experience.**

It was a very difficult experience for us. Just for some context, we can invest up to 20% of total assets in unlisted [market 20:00] companies. Today, we're at about 10%. Northvolt was our first. Unfortunately, it went badly wrong. I think the whole idea with these unlisted companies is that they're staying private for longer and if you want to get access to the full value creation of these companies, you need to try to buy them when they're unlisted. We think that's a differentiator for the trust, but some of them are not going to work and some of them will. If you look at our portfolio as it stands today, you've got Northvolt, which clearly has not worked. You've got some examples that really have worked very, very well.

In Northvolt's case, I think it was a combination of factors. I think the big ones would be it was a very capital-intensive industry. You're making batteries. We went to the north of Sweden to see these facilities. They were enormous. They got going at a really bad time because the pandemic interrupted

the scaleup. That probably caused them to make some mistakes along the way. They also spread themselves too thin. They were trying to do too many things at once. They were expanding into Canada, Germany, etcetera and not spending enough time really focusing on the core operations in the north of Sweden, which were absolutely key to getting their revenue growing and of course, they barely had any revenue either.

If you look at the last two companies we've invested on the unlisted side, they've been extremely profitable. Very cash generative. They've got lots of revenue. There's no worry about that and they're very capital light as well. That's been one of the big lessons that we've taken from this. If you're going to be selective, be very careful about the nature of the business, I guess.

**Let's talk about some of the ones you are now invested. Bending Spoons and FlixBus and, also, Sender are three positions in that pocket. If you want to talk us through the value that they add and the potential that you see in them?**

They're all slightly different. Flix, for example is-, people might have seen Flix buses going around the UK. I've certainly seen plenty up here in Scotland. The best way to describe the business model is that it is like a front end for bus operators. Their big insight was that companies that run fleets of buses are very good at running fleets of buses, but often, not very good at running the consumer interface. The ticketing, the routing. Providing updates on timetables, all that kind of stuff. What they did was, they basically separated these in two. FlixBus does the front end and that takes it off the hands of the fleet operators and allows the fleet operators to focus on the things that they're good at.

It's a revenue shared type model, but the whole idea is that it unlocks massive efficiencies across the whole transport network. They're growing in some very big countries. India's one of the next big ones. They might also be expanding properly into trains at some point. I think they've already got some business there. That's going very well. They've received a big investment from a private investor called EQT not that long ago, which I think has been a very strong validation of what they're doing. Sender is a slightly different business again. It is like a digital freight forwarding software type company. It's trying to help trucking companies in Europe to connect with those who need to move stuff around

Provide software and various other bits and pieces to help these trucking companies manage their businesses better. That's also doing reasonably well. The one that's really steaming ahead is Bending Spoons, which you've already mentioned. That is basically up nearly 400% since our original investment. This is one of those cases that really has worked and I think it's one of the reasons that I

think people should stick with us on the unlisted side. We had a bad start, but these are starting to come good. Bending Spoons is not dissimilar to Topicus. It grows by buying digital apps which do a variety of things. Some examples would be WeTransfer, which is quite good for helping people transfer large files over the internet. Sometimes it's quite difficult to do via email.

**Is that within its portfolio?**

Yes, they own that. They also own another one called Evernote, which is a productivity tool which some people might use. The model is, go out and buy apps that are usually underperforming. What they do is they bring in their specialists, they call them Spooners, to improve the company. To find better ways of doing things and that massively reduces the costs so, they increase the profitability of these apps. They often get them back to growth as well. They're doing extremely well at the moment. I think our confidence in those three companies is really very high. Of course, we have recently made an additional investment in the unlisted space and this is a company called Tekever.

It's a Portuguese hardware and software drone company. Demand for their services is clearly very strong at the moment. They're growing very, very quickly. They're very profitable. Very asset light and we think the next few years are going to be really, really very good for them.

**A common theme that keeps coming up is less capital intensive, asset light businesses. These are businesses traditionally you see a lot in the US market and now, you're finding a lot of these opportunities within Europe's ecosystem. Maybe not reflected in the traditional stock market constituents, but delve deeper and there are some parallels with that innovation which is so often celebrated in the US.**

Absolutely. For all the problems Europe has had, there are a lot of very great companies. We've already talked about some of the ones that have broken through. We mentioned ASML earlier, but definitely, when we look at these unlisted companies, Flix, Sender, Bending Spoons and now, Tekever as well, they've got big ambitions. These are not companies looking to stay in their own small corner of Europe. They're going on tour. Bending Spoons has been buying apps from all over the place. It's bought several apps from the US, for example. Flix, as I mentioned, has been looking at the Indian market. It's been looking at markets in Latin America. They're very much seeing the world as their oyster.

That's absolutely right, you need to look a bit harder in Europe, but those companies are definitely there and we hope to be able to find this next generation of great European tech companies and invest in them at that early stage so we can capture the full returns for our shareholders.



**Of course, valuations in Europe often look attractive versus the US. We also have the additional volatility of the current situation. Can you talk to us a little bit about the disconnect there and how it brings opportunity or how you play it?**

Fundamentally, if you look at our European benchmark for the trust, which is the FTSE Europe ex-UK. I think it trades roughly at a mid-teen multiple forward earnings. The S&P500 is more like 21 times. I think one has to accept that there are structural differences between these markets. Our benchmark, for example, has much more exposure to older industries. Banks, for example, are nearly 12% of our index. A lot of these will be dating back to the 19<sup>th</sup> century. Some of them even further back than that. In the S&P500, banks are maybe 3.5%. If you look at the top four industries in the S&P, they are semiconductors and semiconductor equipment and Nvidia is a big part of that.

You've got software. Interactive media and services. Meta is quite a big part of that section of the market. Tech hardware. Apple would be in there. The top four sectors in our benchmark are as I said, banks is the top on 12%. You've got pharma at 11%. Non-life insurance at 6% and then software computer services 5%. 3% of which is SAP, a famous German software company. These are quite different looking markets and I think it's absolutely true that the US has been a more dynamic economy. It's produced more of these big global tech companies, but that gap in valuation is really quite extreme, I think. What's interesting to me is that things are [marker 30:00] changing in a positive way in Europe and they actually might be changing in a negative way in the US.

You mentioned the unpredictability. I don't know what's going to happen in America in the next week, three months, six months. Europe however, is making some very clear signals about the direction of travel and what needs to be done. I think that's quite appealing actually. For me, I think it's quite easy to write Europe off. What I tend to say is that it's a connoisseur's market. You need to know where to go looking for those great opportunities and that's why I think active management is so important in the European context. It's getting beyond those high-level sector exposures that do look, perhaps, quite unattractive relative to the US to really find those special companies that can compete on the world stage.

**If you're looking at gaining passive exposure via an ETF and it's just tracking the benchmark, then you are going to be holding a lot of that conservative, potentially outdated industry and not actually capturing the real dynamism and the real change that is afoot.**

Absolutely. What's interesting, if you look over the last three or four years, it's that value has outperformed growth in Europe by 3%, 4% per annum. So it's not an insignificant amount. What we've seen, certainly if you look at the last five years, is the sectors that have done really well in

Europe, it's almost been a bit of a return of the empire situation. The banking sector has done really well because lots of the banks went from interest rates at rock bottom to suddenly being able to make some reasonable spread because interest rates went up quite quickly. The share prices went up as well because lots of banks were trading at a fraction of book value.

You've seen defence companies rally really, really strongly. The likes of Rheinmetall or RENK Group, for example. Rheinmetall makes shells. Lots of those get sold into Ukraine. So that's been a big driver of growth, but clearly, Europe is going from a situation where it's been spending basically nothing on defence. That's a bit of an exaggeration, but let's say not very much, to a situation where they've realised goodness, now we have to spend an awful lot more. Obviously, there's been some pressure from President Trump on this, to get European economies to spend more as a percentage of GDP. You've seen a number of sectors of the economy actually have a pretty good time.

I would be very sceptical about some of these over the next five to ten years, particularly given how rapidly they've run up. Particularly banks. The European Central Bank has been cutting rates quite quickly. Much faster than the US, for example. I think active management really makes a big difference in a market like this, as you rightly point out, where you do have a lot of these big companies that hark back to yesteryear and occasionally, get their moment in the sun.

**What's one company in the portfolio that you think is potentially still flying under the radar, but has the potential to be a gamechanger in the next decade? You have littered examples. There's the Portugues drone manufacturer. The Bending Spoons software aggregator. Which one of these would you pick or perhaps, another holding that you're really, really positive about its trajectory over the next decade?**

I'm going to pick a different one and it's one that we invested in not that long ago. I'm going to apologise to the management team for butchering the pronunciation of this company. Roko. It's a Swedish holding company and it was actually setup by a guy falling Frederick Carlson who was the CEO of another Swedish holding company called Lifco for about 20 years. Lifco was active in a number of different markets. The big ones were the dental industry. The demolition industry. There was another one which was a bit more of a mishmash of lots of different companies. His model was to out and buy lots of companies and put them together in a portfolio.

The benefit of that is that you can put companies together that have got very different cycles. You can recycle cashflows from a mature one into a growing one and you can buy companies cheaply from entrepreneurs and founders and immediately attached the multiple of your listed company to their revenues. Which gives you immediate value accretion. He set this business up, Roko, in 2019 and

he's basically going to do it all again. They're very small. It's worth about \$3 billion. It's only been going six years so, that's pretty impressive, but we think he could potentially build another Lifco over the course of the next ten, 15 years. He's only 63. So, he's still a spring chicken.

**It's a bit like the LVMH concept of collective strength within a portfolio of companies.**

There is immense value in having businesses in a portfolio that are doing different things at different times. There are different manifestations of that. Holding companies would be one. Yes, LVMH is a good example. Louis Vuitton is quite a big part of their profits, but they also have the drinks business, Moët Hennessy. Yes, you'll have parts of the business that are doing really well and other parts that perhaps, are doing less well. The parts that are doing really well can help with the parts that are doing less well. We have quite a few examples of that in our portfolio. Of course, our portfolio is itself designed in that way as well.

**A diversified portfolio in action really. Held within a diversified portfolio. I can totally see the potential for that and the appeal, especially in such a volatile environment. That's all we've got time for, for this section. Now, we're going to move on to the audience Q&A. I have had a few questions come in. The first question is on defence spending. It's talking about how you square new investments, which are in the defence industry given massive budget increases across Europe, with an ESG bent.**

I think with ESG, one has to accept that the world changes from time-to-time. With that the needs of governments, countries, economies, citizens, companies change as well. For us, ESG is an important factor. I personally don't like the acronym very much. I much prefer what it represents, which is the idea that there are certain factors which pertain to a company's long-term success that one must consider. They might be quite different in different situations, but a lot of them that in the past perhaps, have been underplayed, are environmental, social and governance. For us, the question is not how many boxes can we tick for all of these things for our companies? It's what are the material factors that are going to help determine the long-term success of these companies?

Investing in a defence company, for example, it is interesting to me that there are some ESG funds out there, that have actually started to put money to work in defence companies. How important is it to defend your citizens in the face of a much more geopolitically unstable world? In the face of Russian aggression coming from the east. We know how unprepared European countries are. In the UK for example, I remember reading about a practice military operation that the UK army was doing out in the US and they ran out of-, it was simulated, but they ran out of ammunition in the space of a week. If you go and look at some of these other countries, they're in an equally difficult position. Is it right

that these countries are unable to defend their citizens in a situation where they might need to? I don't think so.

I think again, it's this point I was making at the beginning of this long-winded answer, which is that what constitutes as ESG might change from time-to-time and we need to be willing to be flexible in terms of how we think about that.

**It was very much a nice to have before geopolitical risk absolutely [marker 40:00] ramped up.**

We're not going to hold these companies to a lower standard by the way. It's not like we're putting money to work in this company and we're going to let them get away with violations of human rights and poor governance structures. Absolutely not. I think we just need to be cognisant of the reality that Europe is facing at this point in time.

**Very specific to the trust's structure, got a question here about the discount to NAV. "It was in its mid-teens and now it's around 9% to 10%. What has driven the narrowing of the discount?"**

I think there's probably been a few things in there. I think it's worth pointing out that the board has stepped up the scale of the share buybacks. This is all public information. You can go and see the various releases on this, but there's been a material step up in the amount of money the board has been willing to spend on share buybacks. That's probably helped. I tend to think the performance really matters a lot when people are thinking about the discount. Europe has done a bit better over the course of this year. If you look at the NAV total return for the trust over the last three months, I think it's up nearly 7% against 4% for the benchmark. That's an encouraging sign. I suspect that might be feeding into the thinking. I think discounts have narrowed across the whole sector as well. It's not just something that's specific to BGE.

**"It looks like a lot of the companies in the portfolio are growing through acquisition, could you tell us more about that?"**

Yes. That's right, we do have companies that grow through acquisition. We do have plenty of companies that grow predominantly organically as well. Tekever, for example, the drone company that we've been talking about. That is all organic growth and very, very high rates of organic growth. I've already mentioned some of the companies that grow through acquisition. I've mentioned Topicus, Bending spoons. When I think about companies that do acquisitions, I think of broadly two different types. You've got what I like to call the nibblers. Which are companies that nibble away, buying small companies over long periods of time. Tend to be quite decentralised, which helps them buy more companies because if you push responsibility down through the organisation, then that allows you to do more acquisitions, even though you're getting bigger all the time.

Topicus is definitely a nibbler. I would say Roko is possibly a nibbler as well. On the other end of the spectrum, I guess you've got what I would call a gobbler, which is a company that does much larger acquisitions, but does them infrequently. A great example of this would be DSV. It is a Danish freight forwarding company. Freight forwarding is basically where you need to move something from A to B to C to D across orders, across transport modalities. So, ships and planes and so on. Their model has been every four or five years, they go out and do a very large acquisition. Ruthlessly integrate it. Strip out all the unnecessary cost and put their best systems in, their best practices. What that does is, it gives you more scale.

When you buy capacity from the carriers like the cargo shipping companies, you can get more bargaining power, basically. That really helps lower your cost to serve your customers. They're currently in the process of integrating DB Schenker, which is one of the other big freight forwarders. It's almost going to double the size of the company. They've basically been able to transform quite a low organic growth rate into quite an attractive top-line growth rate by doing that. Yes, we do like these companies that grow through acquisition, but it's important to say we don't like companies that happen to do acquisitions. There are plenty of examples of companies in the past, that have made a pig's ear of deals.

I remember reading a book called 'Deals from Hell' which was by a professor called Robert Bruner and he went through ten case studies of really terrible deals. I think the worst deal in history for him was Time Warner and AOL's merger back in 2001. For us, we're trying to find those companies that do acquisitions well. They've got really well-oiled acquisition machines so they can go out and deploy capital at scale repeatedly and make a success of it. Not those companies that once in a while will do a random acquisition and hope for the best.

**Adding debt to the balance sheet which is then going to cost you a fortune to refinance.**

Exactly. You've got to be sure that you can take the financial risk. If you've got that well-oiled engine you can do it. Topicus, for example, generates lots of free cashflow internally. It doesn't really need to rely very much on debt and Constellation Software too. They've barely relied on debt at all over the course of their existence and they've been able to generate some very attractive returns.

**It certainly feels like a portfolio that's lean. Full of businesses that are capital light and positioned with catalysts for growth. Your colleague, Stephen Paice, I saw had talked about a new chapter for Europe and it very much feels that the type of businesses that you're invested in are in parallel with that.**

It's been a difficult period. Performance has not been where we've wanted it to be. Stephen and I are shareholders of BGE, we have a lot of our personal wealth invested. We don't do that just for show. We do that because we genuinely believe in the prospects of this portfolio over the long-term. We're both 30s, 40s. We're hopefully going to be here for quite a long time. We now have the performance tender in place. So, this has been running since September of last year and it'll run until September or 2028. We need to outperform the benchmark. If we don't, the trust will be wound up and neither of us want to see that happen. For us it's really all about getting back to delivering the performance that we know we can deliver and that we know this portfolio can deliver over the long-term.

That's required being humble about the mistakes we've made and we have made several. Also, accepting that the starting point today is a very, very healthy one. We've got companies here that are capable of deciding their own destiny. That are growing at attractive rates, with much stronger balance sheets than the average European company. Most of them have got some other long-term owner alongside whom we are invested. Who's also taking that long-term perspective and making the right decisions for long-term prosperity of the company and the valuation isn't very demanding. When we look at the portfolio, it still looks relatively cheap to us. We think that sets things up really very well at a time that is very interesting for Europe. For us, we look at the next five years and we think this could be really, really our moment.

**Thank you so much for being so candid and thank you for some fantastic insights about a new Europe that's shaping up and some of the exciting investment opportunities. That really is all we've got time for. Thank you all for listening too and for your questions. We've more sessions like this coming up, so do keep an eye out for those if you found today useful.**

## Baillie Gifford European Growth Trust plc Annual discrete performance to 31 March

	2021	2022	2023	2024	2025
Share Price (%)	73.9	-20.2	-12.0	7.4	-6.5
NAV (%)	66.1	-14.2	-2.6	5.9	-13.0
Index* (%)	34.9	3.9	8.7	13.8	3.8

Source: Morningstar, FTSE. Total return in sterling.

\* FTSE Europe ex UK Index

### Past performance is not a guide for future returns.

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- The Trust invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.
- Unlisted investments such as private companies can increase risk. These assets may be more difficult to sell, so changes in their prices may be greater.
- 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.

- Market values for securities which have become difficult to trade may not be readily available and there can be no assurance that any value assigned to such securities will accurately reflect the price the Trust might receive upon their sale.
- The Trust's risk is increased as it holds fewer investments than a typical investment trust and the effect of this, together with its long term approach to investment, could result in large movements in the share price.
- The Trust can make use of derivatives which may impact on its performance.
- Share prices may either be below (at a discount) or above (at a premium) the net asset value (NAV). The Company may issue new shares when the price is at a premium which may reduce the share price. Shares bought at a premium may have a greater risk of loss than those bought at a discount.
- The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.
- The aim of the Trust is to achieve capital growth. You should not expect a significant, or steady, annual income from the Trust.

Further details of the risks associated with investing in the Trust, including a Key Information Document and how charges are applied, can be found in the Trust specific pages at [www.bailliegifford.com](http://www.bailliegifford.com), or by calling Baillie Gifford on 0800 917 2112.