Baillie Gifford™

Your capital is at risk. Past performance is not a guide to future returns. The following update is based on a representative portfolio. As such, stock examples may not be held in every client portfolio, and performance may differ.

Katie Muir: A quarter of a century ago, Google set out to organise the world's information. What generative AI is doing now feels bigger. It won't just sort the information that exists—it will create new information, build on it, and apply it in the real world in ways we can barely imagine today. We see it as a true general-purpose technology: early, uncertain, sometimes messy— but potentially transformational.

We've been fortunate to spend time with Brian Arthur, one of the best thinkers on technological change. When we met him recently, he suggested generative AI may be the most important set of changes we've ever had—comparable to the invention of the printing press. Now that's a big claim. But it captures how profound this shift could be.

The challenge, of course, is investing through that kind of change and the uncertainty that comes with it. As growth investors, our approach boils down to 3 things: we back long-run growth, we back the right people, and we build a portfolio that can absorb surprises.

On growth, we're looking for companies that can take share, open new profit pools, and that operate in industries that earn attractive returns on capital. That can look like Spotify expanding its user base, Ferrari raising prices while protecting scarcity, or MercadoLibre building fintech and advertising alongside its e-commerce business.

And within the semiconductor industry, the barriers to entry are real, and the bottlenecks are valuable. This is the infrastructure layer of AI—the "picks and shovels". We expect these companies to be structural winners over the coming decade, even if there's volatility along the way.

On people, we want management teams and cultures that we trust. Aligned, adaptable and focused on delivering value to customers in a sustainable way, because that's what ultimately creates value for shareholders.

And on the portfolio, we're deliberate about exposure: willing to concentrate when the opportunity – like in semiconductors – is compelling, but also recycling capital into

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different growth drivers (Hermes, Galderma, DSV, AIA e.g.) to improve portfolio resilience without compromising on growth.

Turning to performance, 2025 was disappointing in relative terms despite strong absolute returns. Part of that was sharp rises in areas we don't own - particularly banks and defence. That's never comfortable, and we've challenged ourselves on whether we missed structural growth there, and on balance, we're not inclined to chase recent winners.

Within a portfolio of more than 50 holdings, there will always be some that struggles.

Wix.com and Atlassian were weak during the year as the market debates what AI means for software models. Both companies are still growing revenues at double-digit rates, and our view is that they will successfully adopt AI in ways that will make their platforms more valuable, rather than less.

WiseTech Global was also weak on governance scrutiny.

In these cases, we believe this weakness is temporary, and our view of the long-term opportunity hasn't changed.

Despite these headwinds, operationally, much of what we own for clients progressed well - and some of that was rewarded by the market. Spotify's cash generation improved meaningfully; semiconductor holdings Advantest, ASML and TSMC contributed strongly as AI infrastructure demand grew; and newer holdings like dermatology business Galderma and CATL, the world's leading battery manufacturer, executed well.

We cannot time market style shifts, but two observations guide our conviction: over time, share prices follow earnings growth; and we continue to see evidence that the portfolio's earnings power can outpace that of the market.

Our job is to invest in exceptional businesses, stay the course through inevitable volatility, and be decisive when the facts change. We remain confident in our team and our process, and—most importantly—in the ability of the companies held in the portfolio to capitalise on profound global change and translate that into long-term earnings growth.

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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