Baillie Gifford™

European Equities Q2 investment update

July 2025

Investment manager Chris Davies gives an update on the Europe ex UK and Pan Europe strategies covering Q2 2025.

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

Chris Davies: Hello. I'm Chris Davies, one of the portfolio managers on the Baillie Gifford European Equities strategy. I'm here to give you an update on performance, the portfolio and our thinking.

The Strategy outperformed in a turbulent quarter, which didn't lack for news flow. Perhaps unsurprisingly, given the volatility created by the announcement of tariffs by the United States, it was several of our domestic-Europe focused holdings which drove that outperformance – like **Ryanair** in short-haul air travel, **Vend** in Nordic online marketplaces, and **Hypoport**, a mortgage origination platform in Germany. There was also strong performance from several of our technology-related holdings which reported first quarter results – **Spotify** grew its free cash flow by 158 per cent, **Prosus** is making good progress outside of its **Tencent** stake with ecommerce and food delivery rapidly improving profitability, and the software serial acquirer **Topicus** grew operating cash flow by 19 per cent.

And when we look at the stocks which detracted from performance, it continues to be a story of what we don't own, as much as what we do. Not owning banks and defence companies has been a headwind for the best part of three years in what has become a very pro-value market in Europe. Being critical, not having exposure has clearly been a mistake, but we run the risk of compounding this by jumping into them now when they're trading at very elevated valuations.

So, where are we deploying capital instead? The first thing to say is that we have been making a concerted effort to broaden the growth drivers in the portfolio. Historically, we've had large overweight positions in what are generally considered Industrial and Consumer Discretionary businesses, but we've been bringing those exposures down over time. This has meant reductions to the likes of **Richemont** in luxury jewellery and **IMCD** in chemicals distribution, as well as the complete sale of Beijer Ref, a cooling technology distributor.

The area we have added to the most is health care, which contains a number of beaten-down companies in valuation terms but with the potential to see their growth accelerate. Recently, we bought **Roche,** which many of you will have heard of. Roche has had a number of pipeline failures in the past few years after it let its science-first culture run too far, and this has led to a substantial de-rating. Looking at the company with fresh eyes, we see a new management team which is placing significant emphasis on commercial success, while maintaining its reputation for innovation; meanwhile, it's invested heavily in computational biology and has one of the broadest and most exciting pipelines across large pharma – the potential for growth to pick up isn't reflected in the price and so we took a position.

It's a similar story for another company we invested in over the quarter – **Sandoz**. Sandoz was spun out of **Novartis** and develops generic and biosimilar drugs – an industry which has performed poorly in recent years. But with many blockbuster biologic drugs coming off patent in the next few years, Sandoz has the scale, balance sheet and know-how to successfully develop and commercialise biosimilar versions of these drugs and capture an outsized chunk of these markets. Like Roche and indeed the broader portfolio, it's a case of faster future growth at an attractive valuation.

And that case of faster future growth at an attractive valuation could also be said of Europe as a market, with the continent now seemingly prepared to confront its structural deficiencies, starting with infrastructure and defence investments in Germany. Investors appear to have started to take notice. We could be at the start of a period of rebalancing for asset allocators who seem to be realising how overexposed they have become to the US in recent years. Concerns about the size of the US deficit, the tariff shock and Europe's new pro-growth stance have made diversification more appealing again. I think this is an exciting time to be a European investor despite the near-term uncertainty. Our opportunity set is getting richer, and there is an increasingly broad range of growth drivers which we can access.

Clearly, though, the near-term picture does look cloudy, and companies themselves have been telling us that uncertainty weighs on the short-term outlook. Our portfolio characteristics show higher growth, higher returns on capital and lower leverage than those of the index, so we think they have the resilience to withstand the current challenges and grasp the opportunities available to them.

Thank you.

European Equities (including Europe ex UK Equities and Pan European Equities strategies)

Annual past performance to 30 June each year (gross %)

	2021	2022	2023	2024	2025
Europe ex UK Equities Composite	52.3	-45.8	18.2	6.9	10.4
MSCI Europe ex UK Index	37.1	-20.7	25.6	12.3	18.9
Pan European Equities Composite	50.6	-46.2	19.8	5.2	10.0
MSCI Europe Index	35.8	-17.0	22.6	12.4	19.1

Annualised returns to 30 June 2025 (gross %)

	1 year	5 years	10 years
Europe ex UK Equities Composite	10.4	2.9	7.2
MSCI Europe ex UK Index*	18.9	12.8	8.1
Pan European Equities Composite	10.0	2.3	4.7
MSCI Europe Index	19.1	13.1	7.4

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

	2021	2022	2023	2024	2025
Europe ex UK Equities Composite	51.5	-46.1	17.6	6.3	9.8
MSCI Europe ex UK Index	37.1	-20.7	25.6	12.3	18.9
Pan European Equities Composite	49.8	-46.5	19.1	4.6	9.4
MSCI Europe Index	35.8	-17.0	22.6	12.4	19.1

Annualised returns to 30 June 2025 (net %)

	1 year	5 years	10 years
Europe ex UK Equities Composite	9.8	2.3	6.6
MSCI Europe ex UK Index*	18.9	12.8	8.1
Pan European Equities Composite	9.4	1.8	4.1
MSCI Europe Index	19.1	13.1	7.4

*FTSE World Europe ex UK prior to 31 December 2016.
Source: Revolution, MSCI, FTSE. 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.

Past performance is not a guide to future returns.

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