Baillie Gifford™

International All Cap Q3 investment update

October 2024

Investment manager Stephen Paice and investment specialist Thomas Hodges give an update on the ACWI ex US All Cap, EAFE Plus All Cap and Developed EAFE All Cap strategies covering Q3 2024.

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Thomas Hodges (TH): Welcome to this quarterly update video for the International All Cap Strategy. My name is Tom Hodges. I'm an investment specialist on the strategy. Today I'm joined by Stephen Pace, head of European Equities, a PCG member and also a partner of the firm. And today in this short video, what we'll be doing is we'll be giving you an overview of performance, talking about the drivers of performance, before moving on to some of the interesting meetings that Stephen's been having with companies, including a trip over to see ASML in the Netherlands before rounding the conversation up with some portfolio activity.

So in terms of performance. The third quarter certainly wasn't without incident. We began with some of the worst few trading days in recent memory after a weak jobs report from the US, followed then by a rate cut by the ECB, followed by a rate cut by the Fed, and then ending up in September with the news of potential Chinese stimulus coming through. And so what we saw is the market move fully from despair to optimism, and that highlights perhaps the manic depressive nature of stock markets at times. The strategy outperformed over the quarter, and we saw contributions across a range of different sectors and geographies. Companies including DSV freight forwarder, it's announced that it's doing an acquisition. It's acquiring DB Schenker, a smaller peer. But what that will do is it will likely put DSV into the number one position in air and sea logistics from the number three position where it is currently. We also saw really strong performance from AIA in share price terms on the news that the Chinese stimulus would be coming through. That's very good news for Chinese stocks and sentiment towards Chinese stocks. And then also from Adyen. Adyen, the Dutch payments business, it saw a re-acceleration of growth while its peers have actually seen decelerating growth. Now when we turn to the detractors, there's a bit of a common theme there, semiconductors. And for ASML and Tokyo Electron, their shares suffered off the back of the rumors that there would be increased restrictions on the sale and service of equipment to China. And there's no better person in the building to speak to right now about ASML or semiconductors than Stephen, given that he's just come back from a trip over to see the company and spent about four hours with them. So Stephen, perhaps you could give us some of your takeaways.

Stephen Paice (SP): Sure. I mean, there's obviously a lot of short-term considerations that we could speak to ASML about, whether it's kind of Intel's CAPEX numbers for the next quarter and so on. We are in a slightly privileged and fortunate position to be able to visit companies like ASML and spend some quality time with the CEO and some of the other management. And I think what we try to do there is focus much more on the longer-term factors, which will really drive the success of the company over the next 10 or so years. And on that, we wanted to talk about the leadership transition. So ASML has had a CEO and CTO who have very successfully managed the company over decades. And they are transitioning to a new CEO. So we wanted to meet him. We wanted to talk about the corporate culture, the organization, what has made ASML so special, and how he's going to continue that. So we came away from meeting him, and there's only so much you can take away from one meeting, pretty reassured. He's a very impressive individual, and he's got a very good support network around him. The other kind of factors we talked about were the technology roadmap. I think they have an internal joke that the number of people calling for the end of Moore's Law doubles every year, but they certainly are quite confident that there's plenty still to go with lithography, but acknowledge that there are other technologies which are equally as important, whether it's etch and deposition, which we have exposure to through Tokyo Electron, or some of those other technologies like wire bonding. So we think the roadmap is absolutely fine for the next 10 years. And then when it comes to that monopoly position, they internally don't see any competition for 10 or 15 years. So it was a chance for us to talk through some of those reasons, which kind of combine numerous learning curves for individual technologies which come together, but also the ecosystem that they have helped build around Veldhoven in Europe, which is incredibly hard to replicate. So I think overall, we came away pretty reassured about the prospects for the next five to ten years and beyond.

TH: There's certainly a message of enthusiasm for the long term there. Is that something that you're hearing from other management teams as you meet with them?

SP: I think we're starting to see that and hear that. And I think there's probably two areas that are quite common when we're speaking to companies at the moment. One is M&A, you've mentioned DSV. But we're starting to hear more companies talk about how they can capitalise on lower valuations and use the cash and the strong balance sheets that they have. And I think they're starting to get a bit more excited about the opportunities to deploy capital there. And I think the other area is with some of those companies and industries which have been affected by inventories being built up overordering, which has affected companies like Soitec and semiconductors, it's affected healthcare names like Sartorius, Lonza, it's affected consumer discretionary companies, whether it's in spirits or else. And a lot of these companies are now talking about the trough in orders and moving to a more normalised environment where we're getting back to ordering and restocking. So I think at least in the short term we're starting to hear more positive sounds on that cyclical tailwind and also reassurance from some of those structural trends that we're plugged into as well.

TH: It's interesting that you mentioned that companies are trying to take advantage of lower valuations and we are seeing more M&A. One of the sales this quarter was Hargreaves Lansdowne, which is being acquired by Private Equity. In terms of our own portfolio activity or our own new buys, we're certainly also trying to take advantage of lower valuations. So perhaps you could take us through some of the new buys in the strategy.

SP: Sure. So, one company we took a new position in is Partners Group. So, this is a listed Swiss private equity vehicle which has arguably been sold off in the environment where activity has not been as high for these companies and that has affected the performance part of their profits. But the business model is very attractive. Partners Group offers something quite unique in terms of its focus in the mid-market and its one-stop-shop appeal, given that it does private equity, private debt or credit infrastructure, and evergreen funds, which are helping to democratize access to private capital. So when you take those aspects together and the valuation, it seems like a good point to add that to the portfolio.

Two other companies will be added to the portfolio for those that invest in emerging markets. The first is Samsung Electronics. And very simply, this is the largest scale player, lowest cost player in memory. So whether it's NAND or DRAM, Samsung Electronics has the best position. And memory is becoming much more important as a portion of revenues in the industry, because it's arguably one of the bottlenecks to increasing compute performance. So I think Samsung Electronics has a lot of interesting opportunities to grow into this cycle that we've been talking about recently.

The other company that we added was Tencent. Now we already own Tencent indirectly through Prosus, which is a European company, but we added to that position directly through Tencent. And that's simply a recognition that the social media platform that has its gaming platform and lots of other apps and kind of technology ecosystem is massively underappreciated. It's incredibly integral to Chinese life and its ability to monetize that I think is also being misvalued. So those were the additions to the portfolio.

TH: So valuation is certainly supportive for growth investors. And you mentioned earlier about companies saying they're starting to see the beginnings of a cyclical rebound with optimism then for the longer term. Is that how you would sort of describe the prospects for this portfolio as well?

SP: I think so. It's been a while since we've seen those three elements come together. On one hand we have obviously a macro environment which is not as much of a headwind anymore in terms of monetary or fiscal policy. But we're seeing these kind of cyclical tailwinds from individual companies and industries which are quite beneficial. We obviously still have that exposure to

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structural growth which we've always had. But the final piece of the puzzle is that valuation support. And I think it's been a while since we've had all three of those come together. So this is what gives us as stock pickers quite a lot of optimism and excitement for what's to come.

TH: Well, thank you, Stephen. That's certainly a bullish point to end on. So just to sum up quickly, the strategy outperformed over the quarter with contributions from across a variety of sectors' geographies. Stephen's come back from a fairly reassuring visit with ASML despite the recent volatility in share price terms. And we continue to be really active in the portfolio, reflecting that valuations still remain attractive. And for the companies and indeed for the strategy itself, we seem to be going towards the bottom of a period of prolonged cyclical weakness and perhaps into a period of a cyclical tailwind, which is very supportive for a much longer-term secular tailwind. And with that, thank you very much, and we hope to see you next time.

International All Cap (including ACWI ex US All Cap, EAFE Plus All Cap and Developed EAFE All Cap strategies)

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

	2020	2021	2022	2023	2024
ACWI ex US All Cap Composite	28.4	19.4	-39.6	12.6	25.4
MSCI ACWI ex US Index	3.4	24.4	-24.8	21.0	26.0
EAFE Plus All Cap Composite	24.7	17.1	-38.5	13.0	25.6
Developed EAFE All Cap Composite	24.3	20.5	-39.6	12.8	24.5
MSCI EAFE Index	0.9	26.3	-24.7	26.3	25.4

Annualised returns to 30 September 2024 (net%)

	1 year	5 years	10 years
ACWI ex US All Cap Composite	25.4	5.5	5.5
MSCI ACWI ex US Index	26.0	8.1	5.7
EAFE Plus All Cap Composite	25.6	5.0	5.1
Developed EAFE All Cap Composite	24.5	4.9	5.1
MSCI EAFE Index	25.4	8.7	6.2

The International All Cap Strategy comprises three distinct variants. Overall, the variants are broadly similar, with the key difference being the degree of exposure to emerging markets listed holdings.

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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