Baillie Gifford™

International All Cap Q1 investment update

April 2025

Investment manager Alex Summers 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 Q1 2025.

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

Thomas Hodges (TH): Welcome to this quarterly update video covering the international all-cap strategy. My name is Tom Hodges. I'm an investment specialist on the strategy and today I'm joined by Alex Summers, an investment manager on the strategy.

We aren't exactly short of talking points this quarter, from tariffs, to defence spending, to decreasing expectations for US growth, Chinese stimulus, and even the announcement of a fiscal bazooka by the incoming German government, certainly been eventful. And international equities have performed very strongly over this period, outperforming their US counterparts. And in particular, it was European markets which were rallying particularly hard.

And what's largely driven that has been defence and banks. And these are areas which are traditionally associated with the value style of investment. And that marks the continuation of a long trend now of 'value's' outperformance of 'growth' in parts of the international markets. In terms of our own performance, we did underperform over the quarter. And that is largely due to the fact that we are underweight banks and we don't own any defence companies. So Alex, let's start there.

Alex Summers (AS): Yeah. So first and foremost, we are growth investors. And banks have not been traditionally a place where we've found a lot of growth and returns on capital have been quite poor. And so it's just not really been an area where we've looked deeply. That said, recently, we've increased our exposure to banks. We've invested in SEB and UBS, where we see sort of differentiated opportunities for growth within those companies. But we've not sort of chased the Southern European banks, which have re-rated significantly over the last few years, but aren't really growing in sort of a traditional sense.

TH: And you mentioned re-rating there. That's certainly something which can be applied to defence as well. It's largely been a rally driven by announcements as opposed to delivered results so far.

AS: Yeah, so we've looked at quite a few defence companies. One of the big challenges is even if you accept the vision of the governments that's been announced that there will be a lot more spending in the future, and you agree that's definitely going to happen, deciding which companies will benefit the most from that is still quite challenging.

You have local politics, which might determine where one product is manufactured or another, which manufacturer is able to do it. You also have big questions about what the future of warfare will look like and what type of equipment we might need, how much equipment we're going to need. And all of those have made it really difficult to, from a bottom-up perspective, build conviction around a particular idea. And as you mentioned, a lot of re-rating has already occurred in these companies, which may have taken away any potential upside from here.

TH: And turning to the companies that we do own in the portfolios, we've been talking a lot about the potential for a cyclical recovery in multiple different areas, whether it's industrials, whether it's healthcare, even parts of the semiconductor supply chain. We've started to see that come through recently.

AS: Yes, companies like Sartorius, their customers have been ordering a lot as they replace their own diminished inventories at this point. Companies like ASML and Tokyo Electron have had really positive guidance for the year forward. And companies like TSMC continue to grow sort of 30 per cent a year. and are really undemanding valuations, which we found really exciting.

TH: And these are all companies which can benefit from wider international optimism broadening out. And part of that optimism isn't just coming from Europe, it's also coming from China. And that's relevant for all our clients, whether ACWI ex US or in the developed world as well, because it does have an effect on global growth. What are your thoughts on Chinese stimulus?

AS: Yes. So China has been a really disappointing market for a number of years as the economy has really slowed down. And one of the big surprises has been that over the last six months there's been quite a lot of stimulus announced. Every month there's a new bit of stimulus that's being announced. And private capital and private entrepreneurs seem to be being embraced again, which wasn't the case a few years ago. And that was probably best symbolized by Xi Jinping's recent meeting with various technology entrepreneurs which is really exciting, and that's exciting for our domestic Chinese names that we own, but it's also exciting for some of the global companies which we own as well in the developed markets.

So if China starts growing again, it's still the world's second largest economy. If it can really get growth going again, that will drive demand for metals, which BHP produces. It could lead to more

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industrial automation in China, which SMC would be a big part of. And so, we find that quite exciting.

TH: And I asked you about China because you are an Asian and emerging markets specialist in some ways. What are your thoughts on opportunities around the world with regard to Asia and emerging markets, but also elsewhere, particularly in the face of a changing economic environment?

AS: Yeah, so change always creates risks and opportunities, and the best companies and the strongest management teams will be able to navigate the risks and take advantage of the opportunities. In emerging markets, we're very used to strongmen leaders, tariffs, trade restrictions, currency flow restrictions at this point. But we still find a number of companies which have very successfully navigated those and grown globally.

If you take TSMC, nobody thought 10 years ago that they would be successfully investing in US manufacturing capacity. And they've managed to do that and do that very profitably. And, you know, whether it's emerging markets or developed markets, these companies and management teams will act the same way and the best ones will thrive through this change.

TH: And we've taken up the opportunity to add three new holdings over the quarter. What companies did we purchase?

AS: Yeah, so as I mentioned earlier, we invested in UBS, which is a bank with a really dominant global private wealth business, which we find very interesting. Spirax, a global engineering company, and then Roche, which is really a global leader in diagnostics and pharmaceuticals.

TH: And I think those three companies really hit on what we've been investing in more broadly over the past year or so. That's companies which have underappreciated growth. And that's a real theme in the quarterly letter in our sort of ingredients for outperformance going forward. It's growth which can accelerate, but it's growth which isn't quite expected yet. Some of those companies, particularly Spirax and Roche, have had a weaker period over the past couple of years, particularly in the wake of COVID. So, what we're really looking for there is an acceleration in growth, but from a low starting multiple giving us the potential to benefit from both a growth return, but also a valuation re-rating.

And I think that brings us sort of neatly to sort of summarise really. We've underperformed over the quarter, ostensibly due to not owning the banks and defence companies which have rallied strongly in Europe.

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But we think there's real opportunities for a growth acceleration across the portfolio. And that could be through a number of different areas, whether industrials, whether healthcare, whether semiconductor-related companies.

We've added three new holdings and they all fit what we're sort of viewing as the way to outperform going forward. That's focusing on growth, it's thinking differently, taking advantage of price dislocations. and also thinking long-term companies which can grow over the long term. So, we're feeling decidedly optimistic even in the face of a turbulent investment environment. And with that, thank you very much.

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

Annual past performance to 31 March each year (net%)

	2021	2022	2023	2024	2025
ACWI ex US All Cap Composite	66.6	-16.4	-7.9	3.9	0.5
MSCI ACWI ex US Index	50.0	-1.0	-4.6	13.8	6.6
EAFE Plus All Cap Composite	60.7	-15.6	-6.4	2.4	-0.1
Developed EAFE All Cap Composite	61.5	-13.9	-7.4	2.3	-1.4
MSCI EAFE Index	45.2	1.6	-0.9	15.9	5.4

Annualised returns to 31 March 2025 (net%)

	1 year	5 years	10 years
ACWI ex US All Cap Composite	0.5	6.0	4.2
MSCI ACWI ex US Index	6.6	11.5	5.5
EAFE Plus All Cap Composite	-0.1	5.3	3.7
Developed EAFE All Cap Composite	-1.4	5.4	3.7
MSCI EAFE Index	5.4	12.3	5.9

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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