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.

This transcript was generated by AI.

Bill Chater: Discovery has a single mission: to identify underappreciated innovators early, support them for the long term, but continually reassess their merit relative to the next generation of great businesses. We manage the strategy to deliver long-term returns through operational growth. Now, we recognise the need to repair the long-term track record and, as we've discussed in previous updates, this is the team's core focus.

Overall though, 2025 has been a rewarding year with robust absolute returns. Disappointingly though, a weak fourth quarter has dragged the annual relative number slightly behind the benchmark. Now, we've always guided clients to expect performance over short periods such as quarters to be volatile, both to the upside as we saw in the third quarter of 2025, but also to the downside as we've seen this quarter.

So while we won't overreact to a difficult quarter, let's examine the recent performance drivers, but use these to illustrate our confidence in the portfolio going into 2026 and beyond.

First, after a prolonged rally, the AI market complex experienced an evaluation reset in November, with investors confronting questions about the growth required to deliver returns above the already rich premiums. And this prompted a shift away from US tech to more traditionally defensive or cyclical areas, and several of our names have been caught in this rotation.

But we've not seen anything to dampen our long-term bullishness on AI's transformative potential. Now, to capture this for clients, we're focusing on the bottlenecks of the AI value chain, where companies can extract the greatest value, and then identifying those whose growth is occurring here and now. The physical infrastructure required to build and run AI data centres is a clear example.

Despite the price pressure on holdings like Iron and Astera Labs, their rapid growth illustrates the need and demand for these services.

Second, heading into 2026, we're again at a point of uncertainty surrounding US monetary, fiscal and trade policies. Despite US interest rates being cut again in December, the longer end of yields actually crept slightly higher, dampening market enthusiasm for long-term growth opportunities.

And this contributed to the portfolio's valuation being compressed, with aggregate price-to-sales metrics declining. It's important, though, to remember that the political policy cycle moves quickly, especially at the moment. It's barely 12 months since the Trump election rally.

It's less than nine months since the volatility of Liberation Day. But this is why we adhere to our process of identifying and thoroughly understanding the best companies within our universe, then trusting capable management teams to navigate turbulence and relying on the long-term correlation between operational growth and share price performance. In that regard, the portfolio is in strong health. It's forecast to grow sales and earnings at three times the rate of the index over the coming year.

Third, we saw some price pressure on some of the portfolio's larger names. The law enforcement technology company Axon saw its price fall after its latest earnings report revealed compressed margins due to tariffs on imported input materials.

While, despite its latest earnings delivering a beat and guidance rise, Alnylam, the RNA Pharmaceuticals company, saw some profit-taking following a strong run this year. We retain firm conviction in both of these holdings. American Superconductor, the grid systems and resiliency business, experienced a pronounced drawdown following its latest earnings release.

Despite reporting strong growth, this failed to meet investors' expectations. We reviewed the position this quarter, though, following a meeting with the CEO, and came away with the conclusion that given the need for US grid modernisation, and AMSC broadening from being a component provider to one which offers solutions, we can build conviction in a long-term 25 per cent per annum growth trajectory.

Given the price declines, this scenario is absolutely not reflected in the market valuation. Now, to be clear, despite this quarter's weak performance, several of our holdings delivered exceptional returns. Our healthcare names were broadly strong.

Garden Health, the cancer diagnostics business, and Tandem Diabetes, the insulin pump manufacturer, both rallied sharply on impressive quarterly results, while Exact Sciences and Confluent both appreciated on the news that trade buyers would acquire them.

Finally, the end of 2025 marks 12 months since we introduced meaningful process enhancements. These, along with the enthusiasm of several new team members, have led to a repositioning of nearly half of the portfolio over the last year. Now, we expect this rate of turnover to moderate.

Nevertheless, we're excited by the pace and the quality of idea generation, the competition for capital is at its highest level for years. And the portfolio is now exposed to companies at the heart of today's most important structural growth themes, spanning those that meet the current need for security and resource sovereignty to those which are powering the future of compute and unlocking genomic secrets.

It's our excitement about these companies and their potential influence over the coming decade that gives us the confidence to say to you that despite this quarter's volatility, the prospects for the Discovery portfolio have seldom been so bright. Thank you for watching today. Goodbye.

Discovery (representing Global Discovery and Worldwide Discovery strategies)

Annual past performance to December each year (%)

	2021	2022	2023	2024	2025
Worldwide Discovery Composite* (gross)	-21.7	-40.9	4.1	-1.5	17.4
Worldwide Discovery Composite (net)	-22.3	-41.4	3.4	-2.2	16.6
MSCI ACWI Small Cap Index	16.5	-18.3	17.4	8.2	20.3

Annualised returns to 31 December 2025 (%)

	1 year	5 years	10 years	Since Inception*
Worldwide Discovery Composite (gross)	17.4	-11.0	N/A	6.3
Worldwide Discovery Composite (net)	16.6	-11.7	N/A	5.5
MSCI ACWI Small Cap Index	20.3	7.8	N/A	8.9

*Inception date: 30 June 2017.

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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