

Pan Europe Quarterly Update

30 September 2024



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Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

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Product Overview

Pan European Equities is a regional equity strategy that aims to generate positive long-term total returns through investment in European equities. We believe the European equity markets offer active managers a broad selection of high-quality companies capable of delivering attractive and sustainable earnings growth for shareholders.

Risk Analysis

Key Statistics

Number of Holdings	48
Typical Number of Holdings	30-50
Active Share	89%*
Rolling One Year Turnover	22%

*Relative to MSCI Europe Index. Source: Baillie Gifford & Co, MSCI.

We appear to be entering a more benign economic environment and performance, on a 12-month basis, has improved

We are in the early stages of the recovery and we believe investors should be on the lookout for signs of operating leverage and dealmaking

Valuations remain attractive and competition for capital in the portfolio is high



Baillie Gifford Key Facts

Assets under management and advice	US\$293.0bn
Number of clients	633
Number of employees	1708
Number of investment professionals	376

One of the curiosities about the investment industry is that stock market returns are driven by expectations rather than our live experience of the world. Given the innumerable negative headlines out there, it will be surprising to some that the European equity market is up over 10 per cent over the past 12 months. That move is reflective of how it increasingly looks like we are entering a more benign environment. Inflation is abating, interest rates are falling and there is optimism for global economic growth.

In our conversations with clients over the past six months we have often spoken about the case for a rebound in growth rates for the portfolio's companies. The evidence of this continues to build and performance is improving, with the portfolio outperforming on a 12-month basis. This is clearly pleasing in the short-term but, as we have so often written, we want to be judged over much longer time periods and there remains much work to do to improve that track record.

The recovery in growth for the companies we invest in is just getting started. In the coming quarters, we think investors should be looking out for two things: operating leverage and dealmaking.

Operating Leverage

The companies we invest in have moved from investment to delivery mode, seeking to harvest the fruits of their expenditure over the past few years while also right sizing their operations. This is unlocking operating leverage. Revenue growth is rebounding after an 18-month slump, while streamlined cost structures are driving profit margin expansion. The result is much faster earnings growth.

We're beginning to see this come through at Adyen, the Dutch payments company, which was among the portfolio's top contributors over the quarter. In its first-half results, revenues grew 24 per cent, while EBITDA, boosted by the end of a hiring spree, grew 32 per cent. We've also seen this with Spotify, the Swedish audio streaming platform, which is wielding greater pricing power while also exercising greater cost control. Revenue surged by 20% in the second quarter, accompanied by a significant improvement in its operating margin, which expanded from 4.6% in the first quarter to 7% in the second quarter.

Operating leverage potential extends beyond technology firms to various parts of the portfolio.

Lonza, the Swiss drug manufacturer, is well positioned for a return to growth after a post-Covid lull. Its profit margins should also widen as the company capitalises on its recent years of capacity expansion. Likewise, Camurus, a biotech company, should increasingly feel the benefits of operating leverage. Camurus reformulates existing medicines into long acting injectables and therefore does not do expensive drug discovery. Operating off a largely fixed cost base, as Camurus' anti-opioid addiction therapy, Bupivacaine, gains traction, profits should grow significantly.

Consensus forecasts the portfolio's annual earnings growth at 11.8 per cent over the coming three years, well above the six per cent expected for the index. However, as operating leverage begins to materialise, we anticipate the portfolio's earnings growth will significantly exceed those market expectations.

Dealmaking

In recent years, amid challenging economic conditions, a select few companies strategically acquired competitors to strengthen their market positions. As we enter what appears to be the early stages of economic recovery, we anticipate an acceleration in dealmaking. This trend was exemplified in the third quarter when DSV, the freight forwarder, announced its intention to acquire DB Schenker.

In the case of DSV, this acquisition follows a pattern of using the strength of its balance sheet to accelerate market share gains and growth. Every few years, it has used its strong balance sheet to make a big deal, acquiring a smaller, lower-margin peer before extracting synergies with ruthless abandon. The result has been an impressive operating profit compound annual growth rate (CAGR) of 16 per cent over the past 20 years.

We expect other companies to accelerate their M&A plans. The companies in the portfolio have the balance sheet strength to do this, with the portfolio's net debt-to-equity ratio standing at 0.3 times versus 0.6 times for the index, and the investing track record to tilt the odds of success in their favour, with a return on invested capital of 14.1 per cent for the portfolio versus 7.4 per cent for the index.

Portfolio Activity

The portfolio contains several companies which use acquisitions as an engine of growth. DSV is an outlier in that it does big deals. Most of the serial acquirers we have invested in, including Topicus and Beijer Ref, follow a programmatic approach to M&A, doing several deals a year. These lean, cash generative companies can self-fund their acquisitions, and therefore their growth. We invested in another of these companies in the third quarter, Instalco.

Instalco acquires installation businesses in the Nordics, providing heating, plumbing, electrical and ventilation services. The businesses it acquires typically take on projects worth between \$100,000 and \$7m. Instalco looks for owner-led and entrepreneur-driven companies which have demonstrated profitable growth and have high customer retention and satisfaction. The number of these businesses is enormous with Instalco claiming there are 25,000 of them in Sweden alone. Since listing in 2016, it has compounded its free cash flow at 33% as it adds more companies and more customers to its network. Recently the shares have been weak due to a Swedish construction slump. This has provided us with the opportunity to buy a company with a strong capital allocation track record and a long growth runway at a discounted valuation.

We funded the purchase of Instalco by selling the holding in Kering, the parent of luxury brands like Gucci and Saint Laurent. It has suffered from weaker Chinese demand which affected most of its peers to varying degrees. This downturn has been especially tough as Gucci's extraordinary growth of recent years came to an end and those who led it left the business. We think the turnaround will take longer than expected so we sold the position.

Increasing Competition for Capital

We aim to invest in companies for periods of five to ten years and beyond, implying an expected turnover range of between 10 and 20 per cent. At present portfolio turnover is higher than normal at 28 per cent. This doesn't represent a departure from our approach, instead, it reflects the wealth of mispriced growth opportunities that we have uncovered. Valuations remain attractive, in our opinion. Indeed, the portfolio's price-to-earnings growth (PEG) ratio trades at a discount to index. That the portfolio's PEG ratio is 1.4 times versus

1.9 times for the index, shows just how underestimated the portfolio's growth prospects are.

Conclusion

We are resolutely optimistic about the prospects for performance in this increasingly benign environment. We expect the market's focus to return to earnings growth and with operating leverage and dealmaking accelerating, the portfolio is well positioned to deliver in that regard.

The last few years have been very difficult, and performance is not where we expected it to be. However, if we continue to see operational progress at the portfolio companies, and conditions remain supportive, we are absolutely confident that we will get back to delivering value for our clients in the years to come.

Performance Objective

+2-3% p.a. gross of fees over rolling 5 year periods vs index.

The performance objective is aspirational and is not guaranteed. We don't use it to compile the portfolio and returns will vary. A single performance objective may not be appropriate across all vehicles and jurisdictions. We may not meet our investment objectives if, for example, our growth investment style is out of favour, or we misjudge the long-term earnings growth of our holdings.

Periodic Performance

GBP	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	0.2	0.5	-0.3
1 Year	16.1	14.7	1.5
3 Year	-9.8	7.5	-17.3
5 Year	2.9	7.7	-4.8
10 Year	6.5	8.3	-1.7
Since Inception	6.2	8.2	-2.0
USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	6.3	6.6	-0.3
1 Year	27.6	26.0	1.6
3 Year	-10.0	7.3	-17.3
5 Year	4.6	9.6	-4.9
10 Year	4.5	6.2	-1.7
Since Inception	4.8	6.8	-2.0
EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	2.1	2.4	-0.3
1 Year	21.0	19.5	1.5
3 Year	-8.8	8.7	-17.5
5 Year	4.2	9.0	-4.9
10 Year	5.8	7.5	-1.7
Since Inception	6.4	8.3	-2.0
CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	5.0	5.3	-0.3
1 Year	27.5	25.9	1.6
3 Year	-8.0	9.7	-17.7
5 Year	5.1	10.0	-4.9
10 Year	6.5	8.3	-1.7
Since Inception	7.6	9.6	-2.0
AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	2.4	2.6	-0.3
1 Year	18.7	17.2	1.5
3 Year	-8.7	8.8	-17.5
5 Year	4.1	8.9	-4.9
10 Year	7.0	8.7	-1.8
Since Inception	8.6	10.6	-2.0

Annualised periods ended 30 September 2024. 3 Month & 1 Year figures are not annualised.

Inception date: 30 April 2013

Figures may not sum due to rounding.

Benchmark is MSCI Europe Index.

Source: Revolution, MSCI.

The Pan Europe composite is more concentrated than the MSCI Europe Index.

Discrete Performance

GBP	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	33.8	17.4	-41.5	8.1	16.1
Benchmark (%)	-4.9	22.7	-8.6	18.6	14.7
USD	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	40.4	22.4	-51.6	18.1	27.6
Benchmark (%)	-0.3	28.0	-24.3	29.7	26.0
EUR	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	30.5	23.9	-42.7	9.3	21.0
Benchmark (%)	-7.3	29.5	-10.5	20.0	19.5
CAD	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	41.6	16.1	-47.5	16.2	27.5
Benchmark (%)	0.6	21.4	-17.9	27.6	25.9
AUD	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	32.1	21.5	-45.6	17.7	18.7
Benchmark (%)	-6.2	27.0	-15.0	29.2	17.2

Benchmark is MSCI Europe Index.

Source: Revolution, MSCI.

The Pan Europe composite is more concentrated than the MSCI Europe Index.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2024

Stock Name	Contribution (%)
DSV	0.8
Nexans	0.6
Prosus	0.6
Novo Nordisk	0.4
Adyen	0.4
IMCD	0.4
Sartorius Stedim Biotech	0.3
Rightmove	0.3
Shell PLC	0.3
Spotify	0.3
Wizz Air	-0.6
Soitec	-0.4
Softcat	-0.3
Allegro.eu	-0.3
Ryanair	-0.2
Instalco	-0.2
VNV Global	-0.2
Hypoport	-0.2
Dino Polska	-0.2
Roche	-0.1

One Year to 30 September 2024

Stock Name	Contribution (%)
Spotify	1.9
Hypoport	1.8
Schibsted	1.7
Nexans	1.0
Nestle	0.9
Adyen	0.8
Lonza	0.7
Reply	0.7
Prosus	0.6
EQT Partners	0.6
Soitec	-1.3
HelloFresh	-1.1
Sartorius Stedim Biotech	-0.8
Evotec	-0.8
Kering	-0.8
Oxford Nanopore Tech	-0.6
SAP	-0.6
Wizz Air	-0.6
Novo Nordisk	-0.5
AUTO1	-0.4

Source: Revolution, MSCI. Pan Europe composite relative to MSCI Europe Index.

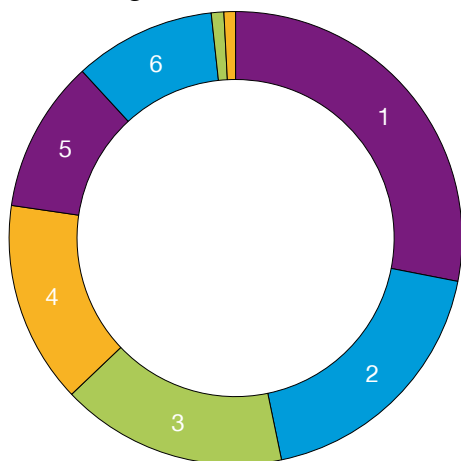
The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions to the portfolio's performance and a description on how the attribution is calculated is available on request. Some stocks may not have been held for the whole period. All attribution figures are calculated gross of fees, relative to the index from stock level up, based on closing prices. As attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio.

Top Ten Largest Holdings

Stock Name	Description of Business	% of Portfolio
Prosus	Portfolio of online consumer companies including Tencent	5.0
Hypoport	Technology-based financial products and services	4.8
DSV	Freight forwarder	4.1
Schibsted	Media and classifieds advertising platforms	4.0
Topicus.com	Acquirer of vertical market software companies	3.7
Games Workshop	Manufacturer and retailer of table top wargames and miniature figurines	3.6
Reply	IT consulting and systems integration provider	3.3
Nexans	Cable manufacturing company	3.1
ASML	Semiconductor equipment manufacturer	2.9
Ryanair	European low-cost airline	2.8
Total		37.2

Totals may not sum due to rounding.

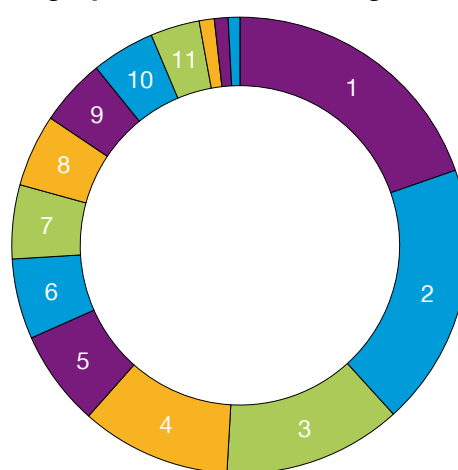
Sector Weights



	%
1 Industrials	28.1
2 Information Technology	18.7
3 Consumer Discretionary	16.1
4 Financials	14.4
5 Health Care	10.9
6 Communication Services	10.1
7 Consumer Staples	0.9
8 Cash	0.8

Totals may not sum due to rounding

Geographical Location Weights



	%
1 Sweden	19.7
2 Netherlands	18.6
3 UK	12.7
4 France	10.6
5 Denmark	6.8
6 Switzerland	5.7
7 Italy	5.2
8 Ireland	5.1
9 Germany	4.8
10 Norway	4.5
11 Poland	3.5
12 Hungary	1.1
13 Luxembourg	1.0
14 Cash	0.8

Totals may not sum due to rounding

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	9	Companies	6	Companies	None
Resolutions	176	Resolutions	11	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	ASML Holding N.V., Experian plc, Kingspan Group plc, Moncler S.p.A., Ryanair Holdings plc, Wizz Air Holdings Plc
Social	Experian plc
Governance	ASML Holding N.V., ASSA ABLOY AB (publ), CRISPR Therapeutics AG, Compagnie Financière Richemont SA, Experian plc, LVMH Moët Hennessy - Louis Vuitton, Societe Europeenne, Mettler-Toledo International Inc., Moncler S.p.A., Prosus N.V., Renishaw plc, Reply S.p.A., Ryanair Holdings plc, Soitec SA, Wizz Air Holdings Plc
Strategy	ASML Holding N.V., Epiroc AB (publ), Kingspan Group plc, Ryanair Holdings plc

Company	Engagement Report
ASML	<p>Objective: To gain insights into ASML's strategic direction under the new chief executive officer (CEO) Christophe Fouquet.</p> <p>Discussion: Our visit to ASML's Eindhoven facility provided a valuable opportunity to engage with the new CEO and other key executives. Christophe Fouquet was appointed CEO in April 2024 joining ASML in 2008. Our impression is that succession planning was well thought through, with Fouquet largely taking full control a year before the official handover date. As seamless as this transition has been, we do not underestimate the changes that Fouquet's appointment will bring. While the previous decade was characterised by the strong leadership of the former CEO and chief technology officer, Fouquet appears to be fostering a more distributed leadership approach across the company's 40,000+ employees. Given ASML's success over the past decade, we were intrigued to hear Fouquet openly discuss areas he aims to improve to ensure continued success. His humility was striking, exemplified by an anecdote where he requested a demotion upon joining ASML to first learn the ropes of lithography. Fouquet's strategic focus now is on adapting to individual customer requirements, acknowledging the diverse needs of major clients such as TSMC and Intel. The introduction of dedicated customer teams, led by the new Chief Customer Officer, Jim Koonmen, further demonstrates ASML's commitment to becoming even closer to its customers. Fouquet also emphasized the importance of ongoing cost reduction for clients, aiming to reduce the cost per exposure by 30% by the end of this decade.</p> <p>Outcome: The meeting reinforced our confidence in ASML's culture of long-termism, strategic direction and technological leadership. Though the company remains confident in long-term demand, the roadmap is more complex than in the past. Fouquet has a clear vision for what the company needs at this stage in its evolution. His ability to reduce costs for clients while at the same time boosting ASML's margins will likely define the success of Fouquet's era. We will continue to monitor.</p>
Ryanair	<p>Objective: This post-AGM visit to the company HQ included meetings with departments across the business. For board engagement, our aim was to better understand the skills of the new board appointees; for the sustainability team we were seeking clarity on decarbonisation planning especially with regards to sustainable aviation fuel (SAF); and for our meeting with the chief operating officer (COO), we wanted to explore supply chain disruption.</p> <p>Discussion: The Chair justified recent board nominees in the context of operational execution. The sustainability team clarified SAF contracts and other measures targeting emissions reductions are embedded in their 2050 NZ plan. The COO introduced Ryanair LABS and discussed some of the supply chain bottlenecks currently facing the company.</p> <p>Outcome: A thorough update on the business across operational, sustainability and supply chain matters. These meetings should help us better calibrate the opportunity in the next few years and boost our confidence that Ryanair has a tangible edge in sustainability versus its LCC peers and long-haul carriers.</p>
Soitec	<p>Objective: To encourage simplification of executive pay plans and the strengthening of minimum ownership requirements for executives.</p> <p>Discussion: We spoke to the chair of the remuneration committee, Delphine Segura Vaylet, following this year's AGM. On the call, we outlined reservations over the complexity of executive pay plans. We also queried the suitability of some non-financial performance metrics included in the latest policy. Delphine explained that the committee adopts a benchmarking approach each year, but acknowledged our concerns. She added that the non-financial metrics discussed would be reviewed by the committee. Finally, we sought to understand the board's thinking on building executive ownership. We noted levels of executive ownership and corresponding requirements are both relatively low. Delphine agreed that this was a topic the board could pay more attention to going forward.</p> <p>Outcome: Delphine appeared open to the feedback provided, intimating that action would be considered by the remuneration committee. She also asked if we could share our updated remuneration principles, which we have committed to doing. We look forward to being consulted on executive pay going forward and will monitor related developments.</p>

Votes Cast in Favour

Companies	Voting Rationale
Ashtead, Auto Trader, Experian, Games Workshop Group, Prosus N.V., Richemont, Schibsted B, Soitec, Wizz Air Holdings Plc	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Prosus N.V.	AGM 21/08/24	3	We opposed the resolution to approve the remuneration report because of concerns with quantum and misalignment between pay and performance. Our concern also relates to the stretch of targets under the long-term incentive plan, all of which we do not deem to be in the best interest of long-term shareholders.
Prosus N.V.	AGM 21/08/24	8	We opposed the resolution to approve the remuneration policy because of concerns with a special 'moonshot' award for the CEO, in addition to the regular long-term incentive plan. We do not believe that the conditions attached to the award promotes appropriate pay for performance.
Reply Spa	EGM 17/09/24	10	We voted against the amendment to the articles as it will allow the company to continue to hold shareholder meetings exclusively through a proxyholder, which will limit shareholder participation. We believe shareholder participation in shareholder meetings is a fundamental and important shareholder right and without reassurances that this provision will only be used in exceptional circumstances we do not think it is in shareholders' best interests to support this amendment.
Reply Spa	EGM 17/09/24	20	We opposed the amendments to the articles of association which would enhance the increased voting rights mechanism at the company. The resolution would allow shareholders who have shares carrying double voting rights to gain a supplementary voting right for every twelve additional months of possession, up to a maximum of ten votes per share. While we support the principle of rewarding long-term shareholders, given the company is controlled already, we believe this could further entrench management.
Reply Spa	EGM 17/09/24	30	We opposed the resolution which sought authority to issue equity without pre-emptive rights because the potential dilution levels are not in the interests of shareholders.
Richemont	AGM 11/09/24	10	We opposed the request to authorise other business. We do not believe this is in the best interests of clients who vote by proxy.
Richemont	AGM 11/09/24	5.17	We opposed the election of a non-executive director because of concerns relating to their suitability to chair the audit committee having previously been an employee of the company.

Company	Meeting Details	Resolution(s)	Voting Rationale
Richemont	AGM 11/09/24	9.3	We opposed the approval of executive variable remuneration due to ongoing concerns with remuneration practices which we do not believe are in the best long-term financial interests of shareholders. Concerns include poor disclosure and a lack of responsiveness to previous shareholder dissent.
Companies	Voting Rationale		
Ashtead, Experian, Wizz Air Holdings Plc	We opposed the resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.		

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

New Purchases

Stock Name	Transaction Rationale
Instalco	In its ten-year lifespan, Instalco has become a key player in consolidating the Nordic technical installation industry. Its shares have seen a spectacular run since listing in 2017 but have experienced recent weakness due to a challenging construction and M&A backdrop. There is still a long runway for further consolidation and we think that the M&A environment will improve in time. The valuation is appealing for a company capable of generating attractive organic growth which it can supplement with the growth it acquires through its consolidation efforts. Based on these attractions, we took a new holding for the portfolio.

Complete Sales

Stock Name	Transaction Rationale
Kering	We have struggled to gain faith in growth at Kering rebounding. The appointment of fresh management to stabilise Gucci feels sensible but unlikely to be revolutionary. The brand faces an unenviable balance between retaining high net-worth clients, who were alienated by its previous creative director, while also speaking to a new generation of younger luxury consumers whose spend is rising fastest. Other brands in the portfolio remain sub-scale and capital allocation has atrophied in recent years. The impending retirement of Chairman and CEO François-Henri Pinault heightens our concern around the group's future direction. We have therefore sold the shares and redeployed the capital into higher-conviction names.

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