

Sustainable Growth Quarterly Update

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30 September 2024



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Past performance is not a guide to future returns. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio. Material market or economic conditions will have an impact on investment results. The returns presented in this document are gross of fees unless otherwise stated and reflect the reinvestment of dividends and interest.

Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction costs and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that recommendations/ transactions made in the future will be profitable or will equal performance of the securities mentioned.

## **Potential for Profit and Loss**

All investment strategies have the potential for profit and loss.

## **Stock Examples**

Any stock examples, or images, used in this paper are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style. A full list of portfolio holdings is available on request.

The commentary relates to the above mentioned strategy and not all stocks mentioned may be held in the portfolio.

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Product Overview

Sustainable Growth is an actively managed, global growth equity strategy. We seek stocks that are sustainable in both senses of the word; enduring growth and enduring good.

Risk Analysis

Key Statistics

Number of Holdings	59
Typical Number of Holdings	55-80
Active Share	89%*
Rolling One Year Turnover	28%

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

Equity markets endured a volatile period this summer, but the Sustainable Growth portfolio showed its resilience, posting a positive return in excess of the index

We continue to trim our winners and reallocate the proceeds to underappreciated growth. Our most notable trade this quarter was the sale of NVIDIA

Even in the most wicked of learning environments there are lessons for investors. We've been looking for these in our investment process and in our portfolio



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

*"A tactician knows what to do when there is something to do. A strategist knows what to do when there is nothing to do."* Garry Kasparov

How do feedback loops differ for chess players striving for grandmaster status and investors constructing a portfolio to optimise returns? This was one topic of discussion when author David Epstein attended our Forum for Long-Term Thinking to discuss his book, *Range: Why Generalists Triumph in a Specialised World*. The book challenges the conventional wisdom that early specialisation is the key to success. Instead, Epstein argues that a broad range of experiences and skills can be more beneficial, especially in today's complex and unpredictable world.

The author differentiates between 'kind' and 'wicked' learning environments. The chessboard is a great example of a kind learning environment. Garry Kasparov has remarked that the game is 99% tactics and 1% strategy. Almost every move has a direct and predictable consequence, patterns of play repeat over and over again. In this sort of environment, one can learn the rules of the game and proceed through 10,000 hours of deliberate practice to achieve expert status.

A wicked learning environment is one where the rules change frequently, feedback is delayed or sometimes - in the most fiendish of environments - reinforces the wrong lessons. In these environments, the game is perhaps 99% strategy and 1% tactics. It's certainly been a wicked learning environment for managers of global equity portfolios over the past few years. In 2023 less than a quarter of actively managed global funds outperformed their benchmark<sup>1</sup>. Their task was devilishly difficult because less than a third of US stocks exceeded the index return that year<sup>2</sup>, the lowest level since 1980. In such environments, it would be easy for investors to infer the wrong lessons from share price behaviour. This is why our focus remains firmly on key company operating metrics.

Two quarters ago we wrote about these operating metrics for our largest holdings, noting that 90% of the portfolio was on track with (or exceeding) our investment thesis. Six months on that number is higher. Some have seen an

<sup>1</sup> <https://www.spglobal.com/spdji/en/research-insights/spiva/>

<sup>2</sup> <https://www.apolloacademy.com/percentage-of-sp-500-stocks-outperforming-the-index/>

improvement in operational performance (gene sequencing company Illumina and biotech Denali Therapeutics are examples), while others have been sold and replaced with new ideas (like life sciences firm Waters and design software company Dassault). That leaves a small number of holdings - where operational progress has been disappointing. We are watching developments closely at each of these companies, with a focus on key operating metrics.

- Coffee chain Starbucks has had a series of poor results, with customers citing price rises as their reason for visiting less frequently. The firm appointed a new CEO in August and the share price responded positively. We'll be watching for progress on goals to improve the customer experience, with shorter wait times, more product consistency and a condensed menu.
- Sartorius is a life sciences business producing single-use equipment used in biologic drug development. Its products are approved by regulators, so customers tend to be very sticky. Indeed, its equipment is so crucial that customers built up large stockpiles during the pandemic. As they work through these, new orders have been very weak, though the latest results showed an improvement here.
- Marketaxess is an electronic bond trading platform benefitting from a shift away from phone-based trading in fixed income markets. The company has been losing share in its core US Investment Grade segment. We've been speaking with management, competitors and our own trading team to understand how a new interface for bond traders might help the company regain lost ground.
- Biotech, Moderna has suffered weak sales of its Covid vaccine and a highly competitive environment for its new RSV vaccine. The company decided to lower research and development spending and refocus its development pipeline. Moderna has made striking scientific progress since we first invested, but its commercial engine must also function well if it is to achieve its full potential.

- JD.com is the third largest ecommerce player in China, majoring in direct sales of household electricals. With around 70% of Chinese wealth tied up in the falling property market, the market for these goods has been far from buoyant, with sales growth in the low single digits. The current valuation is justified entirely by balance sheet cash and stakes in other businesses, so there is great option value in the core business returning to growth if consumer confidence returns.

We've held onto each of these names through a challenging period because we've had conviction that improvement is within reach. Encouragingly we've seen green shoots from each in the most recent quarter. For example, JD benefitted from the announcement of economic stimulus in China in the final weeks of the quarter, improving consumer sentiment. Rest assured we'll keep watch on the operational progress of each of these firms.

While our strategy in this most wicked of learning environments is certainly one of stock-specific focus, we are continually looking for the lessons of the past few years in our investment process. In particular, risk management within portfolio construction has been a recent focus. Bringing our Investment Risk Analyst closer to our portfolio discussions has been helpful in this regard, and we have also been using a wider array of tools to support daily portfolio construction activities. One example is correlation cluster analysis, which gives us another view of where concentrations of risk may reside within the portfolio.

We want to get better at calibrating risk and return prospects across the portfolio and reflecting this in position sizing. This recognises that, while our core strength remains in the fundamental analysis of companies and therefore the stock-specific risk attached to them, there is value in recognising stock-picking and portfolio construction as distinct skills. We've already begun to see the benefits of these enhancements, as closely watched metrics such as volatility and tracking error have steadily trended downwards. It has also allowed us to reorient our process in favour of the identified gaps, for example making sure US mega-cap companies are well represented in our research pipeline.

## Performance

This summer was a particularly wicked one for investors, with a bout of extreme volatility during

August in which global markets fell 3% in a single day. Market nervousness was most pronounced in Japan, where a surprise tightening of interest rates prompted investors to worry that 'carry trades' (where an investor borrows in a low-rate country to invest in a higher-rate one) might be unwound, weighing on asset prices. It's true that markets are more susceptible to extreme moves like these during the holiday season when volumes are lower. Nevertheless, with many markets at or near historical highs and valuations looking stretched in some areas, investor nervousness is evident in these bouts of volatility.

The Sustainable Growth portfolio showed its resilience against this nervy backdrop, up 4% in sterling terms against a benchmark that gained less than a per cent. This narrowed the gap with the index that opened in the first half of the year. The portfolio is now up a respectable 8% in 2024, but still shy of a very concentrated, mega cap-dominated index which is up 13%.

A reversal of that recent pattern of mega-cap dominance was helpful this quarter, with small and medium-sized companies outperforming larger ones. As investors in future growth, we tend to favour such firms. For example, logistics business DSV added ~\$9bn to its \$35bn market cap this quarter. DSV is already one of the world's largest buyers of freight and is committed to using this scale to help reduce the carbon intensity of its customers' logistics networks. When we first took a holding our bull case was a story of industry consolidation, with DSV the acquisitive protagonist. In September the company announced the acquisition of Deutsche Bahn's logistics unit, Schenker. If the merger receives regulatory approval it will see DSV become the world's largest freight forwarder, almost doubling revenues. This development made it a top performer in the quarter.

A reversal of the recent pattern of North American dominance was also helpful for a Sustainable Growth portfolio with a US underweight and a corresponding European overweight<sup>3</sup>. However, US companies are still our largest allocation, and holdings in the healthcare and technology sectors have weighed on performance this quarter. Cognex is one example. The company is a leader in machine vision technologies, automating processes across a range of industries from food (checking fill levels on

<sup>3</sup> <https://www.apolloacademy.com/percentage-of-sp-500-stocks-outperforming-the-index/>

beverages, for instance) to automotive (inspecting parts for defects). When we took a holding at the end of 2022, we thought we were close to the low point in what is a naturally cyclical industry. However, the trough has taken longer than expected to reach, not least due to weakness in the automotive segment where manufacturers are delaying EV projects. We're still confident in the long-term case for more factory automation and the waste reduction/safety benefits it brings, but we'll be watching carefully as Cognex fends off stiff competition from China and tries to address new customer segments.

Elsewhere, Latin American ecommerce and fintech company MercadoLibre has been a strong performer over the quarter and the year so far. The firm's first mover advantage, together with investments in its expansive logistics network to provide customers with faster and cheaper deliveries, has allowed it to keep foreign competitors such as Amazon at bay. In its latest results ecommerce revenues continued to grow around the 25% mark, but more impressive was the acceleration in the financial business, with monthly active users growing more than a third year-on-year to reach 52 million. The firm has been able to grow its loan book at this rate without seeing an increase in loan losses, which shows its algorithmic approach to lending is working. This is to the benefit of a region where more than half the population do not have a bank account, and to the performance of the portfolio with MercadoLibre finishing the quarter as the largest holding after a strong showing in share price terms.

### Positioning

Having reduced the position by more than 2% already this year, we sold the remaining holding in NVIDIA this quarter. NVIDIA has delivered more than a 50-fold return since we first took a holding in 2016. Our original thesis was predicated on the idea that graphics processing units (GPUs) would be well suited to a range of applications beyond gaming, such as virtual reality. In fact, their artificial intelligence (AI) applications are what have driven the share price higher, with most of that exceptional return delivered in the post-pandemic period.

A large part of the company's success can be attributed to Jenson Huang's leadership and vision. This remains a well-run business at the cutting edge of the AI revolution, and with earnings

growing at 265% YoY to \$22bn in the most recent quarter, the 40x forward earnings multiple could well be justified. However, we are concerned that these earnings could be inflated by the extreme supply-demand imbalance for GPUs. Capital expenditure for cloud service providers has ballooned, but recent comments from these 'hyperscalers' raise questions about the returns on these investments given the absence (so far) of a killer use case for AI.

NVIDIA's focus may well be its greatest strength, but we place a lot of emphasis on company resilience, so we are more comfortable with diversified exposure to the AI theme. With the purchase of Microsoft we achieve this by moving from hardware to software. Microsoft has three core businesses - productivity (Office 365), cloud computing (Azure) and personal computing (Windows, gaming, devices etc). These are roughly equal contributors to annual revenues totalling ~\$200bn, and all stand to benefit from AI features. The company has emerged as a leader in the field following the prescient \$1bn investment in OpenAI back in 2019.

Azure, under Satya Nadella's leadership, has become crucial to the company's transformation. More than two-thirds of the Fortune 500 now use Azure OpenAI. This functionality is expected to accelerate the migration to the cloud, a move made by only about a quarter of enterprise workloads so far, and primarily cloud-native firms. The next wave is likely to come from traditional businesses favouring hybrid cloud solutions, where Microsoft has invested heavily. Despite the intense pressure to adopt AI, tightening IT budgets mean that departments prefer centralized, 'good enough' solutions over complex, best-of-breed products. This trend suggests that early leaders in enterprise IT are likely to consolidate their advantage due to high switching costs and the stickiness of customer relationships.

We still think that the market's intense focus on all things AI-related is distracting from other sources of growth which could be just as lucrative in the long term. New holdings in French medical diagnostics business bioMérieux, US insurance giant Marsh & McLennan and Japanese fintech GMO Payment Gateway are illustrative of the diverse sources of growth finding their way into the portfolio in recent months. These are all companies run for the long term with unique cultures, and the benefit of the broad remit we follow on our clients behalf is that you can have exposure here as well

as the prominent mega trends which dominate the market narrative.

**Outlook**

It has been pleasing to see improved performance this quarter. In particular, it's great to see contributions from regions other than the US, from companies other than the mega-caps and from sectors other than technology. We hope this is just the beginning of a sustained improvement in absolute and relative returns. There are a few things that should support this going forward:

- Valuations are very reasonable in a portfolio that exhibits robust fundamentals. Greater appreciation of the worth of resilient firms would be positive for the holdings.
- An end to the phenomenon of post-pandemic destocking would be supportive for the healthcare holdings.
- A narrowing of the valuation gap between small and large companies would be beneficial given our preference for the growth companies of the future.

We've seen hints at improvements in all of these factors this quarter, and a more supportive interest rate environment could see a headwind become a tailwind for growth investors. Perhaps this is a sign of a kinder learning environment to come. We'll update our clients on progress next quarter.



## Performance Objective

+2 to 3% p.a. 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

<b>GBP</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	3.8	0.6	3.2
1 Year	18.2	20.4	-2.3
3 Year	-7.5	8.8	-16.3
5 Year	8.0	10.8	-2.8
Since Inception	12.3	12.8	-0.5
<b>USD</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	10.1	6.7	3.4
1 Year	29.9	32.3	-2.5
3 Year	-7.7	8.6	-16.3
5 Year	9.8	12.7	-2.9
Since Inception	11.1	11.6	-0.5
<b>EUR</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	5.7	2.5	3.3
1 Year	23.2	25.6	-2.4
3 Year	-6.5	10.0	-16.5
5 Year	9.3	12.2	-2.9
Since Inception	10.7	11.3	-0.5
<b>CAD</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	8.7	5.4	3.3
1 Year	29.7	32.2	-2.5
3 Year	-5.7	11.0	-16.7
5 Year	10.3	13.2	-2.9
Since Inception	10.7	11.3	-0.5
<b>AUD</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	6.0	2.7	3.3
1 Year	20.8	23.1	-2.3
3 Year	-6.4	10.1	-16.5
5 Year	9.2	12.1	-2.9
Since Inception	11.7	12.2	-0.5

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

Inception date: 31 December 2015

Figures may not sum due to rounding.

Benchmark is MSCI ACWI Index.

Source: Revolution, MSCI.

The Sustainable Growth composite is more concentrated than the MSCI ACWI Index.

## Discrete Performance

<b>GBP</b>	<b>30/09/19- 30/09/20</b>	<b>30/09/20- 30/09/21</b>	<b>30/09/21- 30/09/22</b>	<b>30/09/22- 30/09/23</b>	<b>30/09/23- 30/09/24</b>
Composite Net (%)	59.1	16.7	-35.3	3.4	18.2
Benchmark (%)	5.8	22.7	-3.7	11.0	20.4
<b>USD</b>	<b>30/09/19- 30/09/20</b>	<b>30/09/20- 30/09/21</b>	<b>30/09/21- 30/09/22</b>	<b>30/09/22- 30/09/23</b>	<b>30/09/23- 30/09/24</b>
Composite Net (%)	66.9	21.7	-46.4	13.1	29.9
Benchmark (%)	11.0	28.0	-20.3	21.4	32.3
<b>EUR</b>	<b>30/09/19- 30/09/20</b>	<b>30/09/20- 30/09/21</b>	<b>30/09/21- 30/09/22</b>	<b>30/09/22- 30/09/23</b>	<b>30/09/23- 30/09/24</b>
Composite Net (%)	55.2	23.2	-36.6	4.6	23.2
Benchmark (%)	3.2	29.5	-5.7	12.3	25.6
<b>CAD</b>	<b>30/09/19- 30/09/20</b>	<b>30/09/20- 30/09/21</b>	<b>30/09/21- 30/09/22</b>	<b>30/09/22- 30/09/23</b>	<b>30/09/23- 30/09/24</b>
Composite Net (%)	68.4	15.4	-41.9	11.2	29.7
Benchmark (%)	12.0	21.4	-13.5	19.5	32.2
<b>AUD</b>	<b>30/09/19- 30/09/20</b>	<b>30/09/20- 30/09/21</b>	<b>30/09/21- 30/09/22</b>	<b>30/09/22- 30/09/23</b>	<b>30/09/23- 30/09/24</b>
Composite Net (%)	57.0	20.8	-39.8	12.6	20.8
Benchmark (%)	4.4	27.0	-10.4	21.0	23.1

Benchmark is MSCI ACWI Index.

Source: Revolution, MSCI.

The Sustainable Growth composite is more concentrated than the MSCI ACWI Index.

## Stock Level Attribution

## Top and Bottom Ten Contributors to Relative Performance

## Quarter to 30 September 2024

Stock Name	Contribution (%)
MercadoLibre	0.6
DSV	0.5
Illumina	0.5
MarketAxess	0.3
Inspire Medical Systems	0.3
Centre Testing	0.3
Eurofins	0.3
IMCD	0.3
Exact Sciences	0.3
Recruit Holdings	0.3
Moderna	-0.3
Cognex Corp	-0.3
Alphabet	-0.3
Staar Surgical	-0.2
MSA Safety	-0.2
Tesla Inc	-0.2
Apple	-0.2
TSMC	-0.2
Advanced Drainage Systems	-0.2
Spirax-Sarco	-0.1

## One Year to 30 September 2024

Stock Name	Contribution (%)
Spotify	1.4
Recruit Holdings	1.1
TSMC	1.0
MercadoLibre	0.8
Beijer, G & L AB	0.6
Wabtec	0.5
Experian	0.4
Shopify	0.3
Atlas Copco	0.3
NVIDIA	0.2
Prudential	-0.7
Tesla Inc	-0.6
Sartorius Stedim Biotech	-0.5
Spirax-Sarco	-0.5
Kubota	-0.5
Illumina	-0.5
Meta Platforms	-0.5
Nibe Industrier	-0.4
Cognex	-0.4
Microsoft	-0.4

Source: Revolution, MSCI. Sustainable Growth composite relative to MSCI ACWI Index.

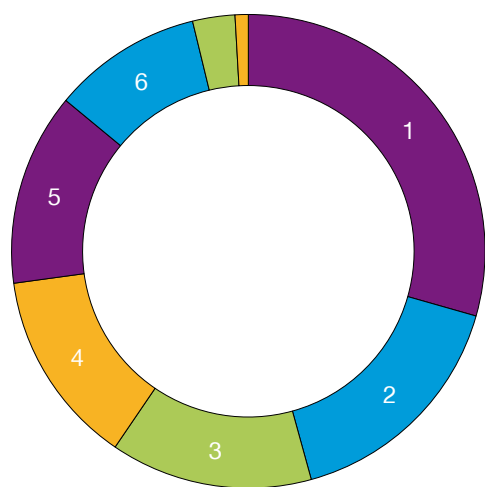
The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions to the portfolio's performance and a description on how the attribution is calculated 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
MercadoLibre	Latin American e-commerce and fintech platform	4.3
TSMC	Semiconductor manufacturer	4.1
Microsoft	Technology company offering software, hardware and cloud services	4.0
Illumina	Gene sequencing equipment and consumables	3.1
Recruit Holdings	Property, lifestyle and HR media	3.0
UnitedHealth Group	Health care company	3.0
Alphabet	Search platform, software, cloud services and more	2.8
Texas Instruments	Analog semiconductors	2.8
Mastercard	Global electronic payments network and related services	2.6
Spotify	Streaming platform for audible content	2.6
<b>Total</b>		<b>32.3</b>

Figures may not sum due to rounding.

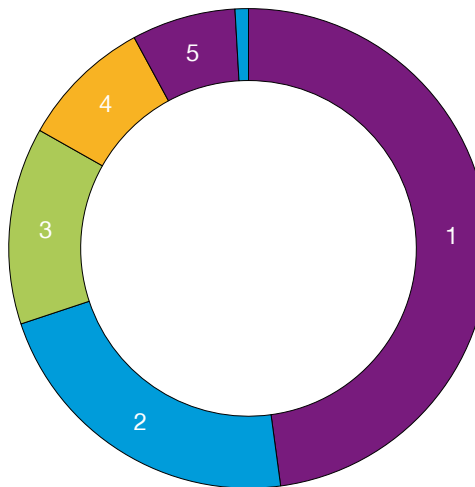
**Sector Weights**



	%
1 Industrials	29.4
2 Information Technology	16.3
3 Health Care	13.8
4 Consumer Discretionary	13.3
5 Financials	13.2
6 Communication Services	10.2
7 Consumer Staples	2.9
8 Cash	0.9

Figures may not sum due to rounding.

**Regional Weights**



	%
1 North America	47.9
2 Europe (ex UK)	22.0
3 Emerging Markets	13.3
4 Developed Asia Pacific	8.9
5 UK	7.0
6 Cash	0.9

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	4	Companies	3	Companies	None
Resolutions	63	Resolutions	3	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	Experian plc, Kubota Corporation, Metso Oyj, Savers Value Village, Inc.
Social	Experian plc, MercadoLibre, Inc.
Governance	Advanced Drainage Systems, Inc., Alphabet Inc., Experian plc, Illumina, Inc., Kubota Corporation, MarketAxess Holdings Inc., Mastercard Incorporated, Moderna, Inc., Raia Drogasil S.A., adidas AG
Strategy	Epiroc AB (publ), Illumina, Inc., MercadoLibre, Inc., Moderna, Inc.

Company	Engagement Report
Kubota	<p>Objective: As a major supplier of large equipment for construction and agriculture, Kubota can influence the decarbonisation of two materially carbon-intensive industries. This could ultimately be a competitive advantage for the company driving future growth opportunities. We engaged to learn about the company's ambitions for its decarbonisation pathway, including both challenges and opportunities.</p> <p>Discussion: Kubota described the company's roadmap for investments to convert fossil fuel-based industrial heat processes into electric alternatives and substantially reduce the company's operational carbon footprint. Doing so will enable the company to meet its near-term target for decarbonisation, which aligns with the ambitions of the Paris Agreement. However, the company's scope 2 emissions reductions largely depend on the pace of decarbonisation of the Japanese power grid. The company has a very substantial supply chain carbon footprint - both upstream and downstream. The upstream is mainly due to the significant emissions from the supply of Japanese steel to Kubota's manufacturing operations in Japan. Again, the pace of decarbonisation is largely outside of Kubota's control, and the company didn't provide much confidence regarding industry initiatives or ambitions to align with the Paris Agreement.</p> <p>The downstream emissions are from the sale and usage of Kubota's portfolio of predominantly fossil fuel-powered equipment (mostly tractors, excavators and diggers). The company is gradually expanding its product offering to include non-fossil alternatives, such as hybrid, battery-powered, and even hydrogen-fuelled. However, these costly alternative products' adoption is currently incredibly low. With the battery-powered alternatives, the problem is the lack of rural charging infrastructure and the fact that existing technology can only operate for a maximum of three to four hours before recharging - not great for productivity on either a construction site or a farm!</p> <p>Outcome: Kubota faces several challenges with decarbonisation - the company's direct and indirect emissions footprint. The company has determined a credible pathway to reduce the emissions from its operations, but Kubota is also heavily dependent on both the Japanese government and the Japanese steel industry to reduce its indirect emissions materially. Furthermore, as the business pivots towards developing markets to grow its agricultural sales, selling low-emissions alternatives to diesel engines will become increasingly challenging. Consequently, Kubota's decarbonisation will likely remain an engagement priority as we continue to build our knowledge and understanding of the company's progress.</p>

Company	Engagement Report
Metso	<p>Objective: As a major supplier of processing equipment to the global mining industry, Metso can influence the decarbonisation of a materially carbon-intensive industry. We engaged to learn about the company's ambitions for its own decarbonisation pathway, including both challenges and opportunities.</p> <p>Discussion: Metso has a significant carbon footprint from its supply chain and from the use of the products it sells to the global mining industry. We learned how the company has engaged over a few years with many of its suppliers. Metso has been encouraging small, local suppliers to set science-based emissions reduction targets that align with the ambitions of the Paris Agreement. Metso has also been working with third-party providers of credit to facilitate improved payment terms for suppliers with emissions reduction targets too. With product innovation, Metso continues to focus its research and development on delivering material improvements in energy efficiency. We heard how the company has recently launched a new crusher and grinding mill product that reduces energy demands by an astonishing 40 per cent over an incumbent industry technology. This step-change in efficiency can only be delivered through Metso's sustained and financially material commitment to innovation through improving the energy efficiency of the company's products.</p> <p>Outcome: Following the merger with Outotec, Metso has identified the energy transition as one of its strategic priorities. The company's ambitions include decarbonising its direct emissions footprint by 2030. Metso is addressing the material challenge of tackling its supply chain emissions through considered supplier engagement and product innovation - the latter being a key competitive advantage. The company is also establishing new near-term decarbonisation targets for both upstream and downstream emissions. We will continue to engage with Metso as part of ongoing monitoring of the company's progress, but given the ambition and progress to date, it is unlikely to be a priority for substantial engagement on decarbonisation.</p>
Savers	<p>Objective: Roughly 75 per cent of the donated items that Savers receives do not end up being sold in thrift stores, but end up being sold on to a variety of other channels. There has been a lot of controversy about waste from developed economies being dumped in West Africa. We wanted to understand whether Savers was exposed to this concern and how this risk was managed. We, therefore, took a call with Tony Shumpert - Savers' vice president of re-use and recycling.</p> <p>Discussion: Wholesale channels do have risks and Savers are very aware of them. It takes several measures to mitigate them. First, it organises its unsold goods into segmented categories (it now has 20 categories) to ensure that they reach appropriate wholesale partners, and do not end up being placed in landfill. Savers also manages its relationships with wholesale partners carefully; it focuses on building long-term relationships with its partners and, on average, partnerships have been in place for 10+ years; as the largest consistent supplier of goods to many of the wholesale partners, Savers has considerable leverage over them. It conducts rigorous due diligence on all partners at least annually. Clothing is a particularly challenging area, and instead of working with wholesalers, Savers works with graders; graders' business models involve maximising the reuse potential of all clothing received - instead of clothes which are not fit for wear being dumped, they end up being sorted into different grades for retro clothing, rags and insulation; fibre to fibre recycling remains a challenge, but this constitutes just 1 per cent of clothing waste.</p> <p>Outcome: We were reassured by Savers' thoughtful approach to its wholesale channels. Savers' position as a responsible actor committed to the circular economy came through clearly during the call.</p>

Votes Cast in Favour

Companies	Voting Rationale
Advanced Drainage Systems, Experian, HDFC Life Insurance Co Ltd, Wise Plc	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Advanced Drainage Systems	Annual 18/07/24	2	We opposed the ratification of the auditor because of the length of tenure. We believe it is best practice for the auditor to be rotated regularly as this works to ensure independent oversight of the company's audit process and internal financial controls.
Companies	Voting Rationale		
Experian, Wise 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
bioMérieux	<p>bioMérieux develops and sells in-vitro diagnostic tests (IVD), which are primarily used in clinical settings for infectious diseases. Faster and more accurate diagnostics can lead to earlier interventions, better treatment efficacy, and ultimately, improved patient outcomes. The IVD market is poised for significant growth due to demographic changes, urbanisation, climate change, and the rise in microbial resistance. bioMérieux can grow faster still as it leverages its strategic focus on niche markets and innovative technologies. The Mérieux family's control, coupled with a history of prudent capital allocation, establish a strong trust in management. With the vast majority of sales being recurring and targeting defensive end markets, the company also demonstrates resilience and adaptability. Following excitement about the business's prospects during the pandemic, the market has de-rated the shares as it struggles with uncertainty about nearer-term growth rates. A temporary slowdown shouldn't be confused with a shift in the fundamental trends, however, and we are confident that the structural drivers of the IVD business and bioMérieux within it are powerful, enduring, and largely unaffected by geopolitical events.</p>
GMO Payment Gateway	<p>GMO Payment Gateway ('GMO') plays an important role in supporting the payment infrastructure necessary to support Japan's transition to a cashless society. Its core service involves facilitating online transactions by processing payments and ensuring security. It is a leading provider of secure online payment gateway services primarily to medium and large companies, and local government authorities. GMO also offers services to small and medium-sized enterprises ('Epsilon') and payment processing for in-person purchases ('Financial Gate'). Japan lags many other developed markets in terms of penetration of online payments. 60% of Japan's face-to-face transactions are made with cash, and e-commerce sales only represent 14% of total retail sales. We therefore believe that GMO is poised to benefit from this shifting structural trend. Furthermore, we expect to see the expansion of online payments into services beyond just physical goods such as travel tickets, household bills, and insurance. We believe its diversified offering, scale, and strategic acquisitions to strengthen profit generation underscore its proactive approach to growth and market expansion.</p>
Marsh & McLennan	<p>Marsh &amp; McLennan is a global professional services firm that operates two main segments: Risk and Insurance Services, and Consulting. The services it provides play a critical role in helping companies and financial institutions understand and manage risks. For example, it provides innovative solutions to address the increasing risks posed to physical assets by climate change. It boasts significant scale across global insurance markets, granting it considerable purchasing power and visibility of risk patterns superior to other players. We consider this to be a key competitive advantage, allowing Marsh to remain dominant in the industry. Growth from here is expected to be driven by insurance and reinsurance premiums, and increased risks faced by clients such as natural disasters and economic cycles. Its business model is underpinned by deep sector expertise and scale, enabling it to offer superior terms and advice to its clients. We believe that growth will accelerate driven by both industry expansion and market share gains as Marsh plays an increasingly important role in solving evermore complex problems for its clients.</p>
Microsoft	<p>Microsoft has three core businesses - productivity (including Office 365), cloud computing (Azure) and personal computing (Windows, Xbox, LinkedIn). These are roughly equal contributors to annual revenues totalling more than \$200bn. Azure has been at the centre of the company's reinvention under Satya Nadella, who is widely seen as a visionary leader. Yet the transition away from on-premise servers is still in its infancy. Only around a quarter of workloads have moved to the cloud, and many of these companies are digital natives. The second wave will be analogue businesses, and these firms are likely to find a partner they already trust, such as Microsoft. Microsoft's strategic positioning in 'platform-as-a-service' applications offers a competitive edge with higher margins. Additionally, its investment in OpenAI positions it as a leader in generative AI, enhancing productivity across its services. These productivity gains have the potential to confer huge societal benefits as Microsoft's applications support innovation for growth. Moreover, a company of this scale also has the potential to be a positive influence on the whole business world. Microsoft is embracing this opportunity with ambitious targets for net zero emissions by 2030 and a commitment to offset all of its historic carbon emissions by 2050. This scale is also the biggest challenge to our investment thesis. To meet our growth hurdle we need to believe that Microsoft will maintain its position as one of the world's most profitable companies. Our insight is that the power of the company's competitive position is likely to strengthen as customers become more reliant on it over the next 5-10 years. The duration of the competitive advantage is therefore very long indeed.</p>

Savers Value Village	Savers Value Village (SVV) is the only listed thrift store chain operating in the US and Canada. It has a unique business model which seeks to balance the needs of charity partners, employees and shareholders, fostering a powerful virtuous circle whereby its growth benefits all stakeholders. The investment case is supported by strong structural tailwinds such as the desire to shop second-hand and decrease the volume of textiles going to landfill. Furthermore, the circular economy will be critical to maintaining standards of living while transitioning to a sustainable future. SVV plans to accelerate store openings in a thoughtful way which, combined with scale benefits such as shared data analytics and increasing automation, should lead to a long growth runway. Expertise in processing clothing is its biggest source of edge. It has the ability to collect and sort vast quantities of esoteric stock, in a profitable way. We have taken an initial position on our clients behalf.
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## Complete Sales

Stock Name	Transaction Rationale
Bridgestone	We have sold out of the position in leading tyre manufacturer Bridgestone. The holding has been a good diversifier for the portfolio but we have growing concerns with its sustainability credentials as tyre retreading for all but heavy vehicles remains elusive. While the company is committed to reducing emissions and setting targets, there is a disappointing lack of desire to be a leader in the industry. We have chosen to recycle capital into new ideas where there is a clearer sustainability case.
Dassault Systemes	Dassault Systemes provides software which simulates the entire production process in a virtual environment from design and manufacturing, all the way to customer feedback. This allows rapid, iterative experimentation before commitment to real-world action, leading to better products which minimise waste. Dassault's core business serves the aerospace and automotive sectors. This is a mature, established and very resilient business. Our investment case rested on somewhat faster growth emerging from sectors where computer aided design is less well established, such as drug development in the life sciences space. However, progress here has been slow. While we admire Dassault we decided to sell the position to fund higher conviction ideas elsewhere.
NVIDIA	NVIDIA has been a strong performer for the portfolio since we first took a holding. Our original investment thesis was based on the parallel processing capability of the firm's graphics processing units, and the possibility that these would be applied to areas beyond gaming, such as virtual reality. Artificial intelligence has turned out to be a notable application and has driven the company's share price higher, particularly in the post-pandemic period. A large part of the firm's success can be credited to visionary founder and CEO Jensen Huang. He built a moat around the business by ensuring the vast majority of AI developers used the firm's CUDA interface by giving it away for free. This remains a well-run company at the cutting edge of the AI revolution, and with earnings expected to grow rapidly its current valuation does not look unreasonable. However, we are mindful of the cyclical nature of this industry and cognisant of the competitive threat from tech businesses developing their own chips. Moreover, while NVIDIA's focus may be its greatest strength, given the emphasis we place on company resilience we are more comfortable giving our clients more diversified exposure to this important theme. For this reason, we decided to sell the position in NVIDIA to fund a new purchase of Microsoft.
Waters	Waters is a niche analytical instrument company. Our investment case centred on the company offering an attractive combination of healthy revenue growth, underpinned by rising global research budgets and a robust product pipeline. However, while margins have been resilient, organic growth has been persistently below what we'd hoped for. We have a lot of admiration for Waters and will continue to monitor the company, but at this point we see more attractive opportunities elsewhere.

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