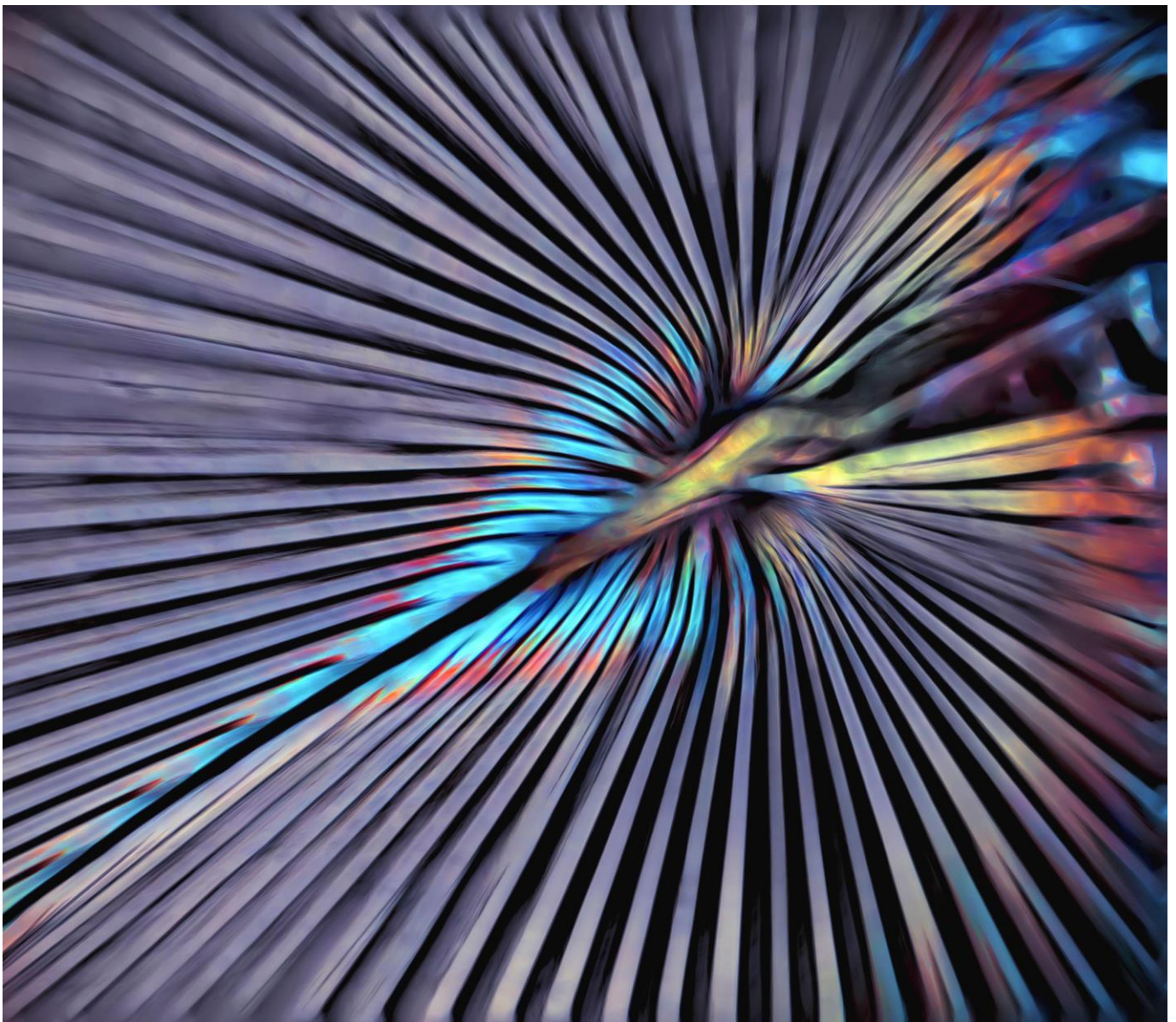


**Baillie Gifford™**

Europe ex UK Quarterly Update

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31 December 2024



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## **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

Europe ex UK is a regional equity strategy that aims to generate positive long-term total returns through investment in continental Europe and the Republic of Ireland. 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	37
Typical Number of Holdings	30-50
Active Share	85%*
Annual Turnover	33%

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

The Strategy underperformed in the fourth quarter and over the year after a volatile final three months of 2024

Despite the challenging backdrop, we remain optimistic with numerous cycles set to turn and valuations remaining depressed

A recovery in fundamentals could also be met with a valuation re-rating, and we believe the Strategy is well-positioned for such a prospect



Key Facts

Assets under management and advice	US\$272.3bn
Number of clients	613
Number of employees	1682
Number of investment professionals	375

The portfolio underperformed over both the fourth quarter and the calendar year of 2024. This past year has been tough for European equities, particularly for growth stocks and those towards the smaller end of the market cap spectrum. While there have been notably strong performances from Spotify, the Norwegian classifieds business Schibsted and the Swiss drug manufacturer Lonza, many stocks in the portfolio have faced significant headwinds. These include the 'destocking' effect, weaker industrial activity in parts of Europe, and softer demand from end markets like China. However, we are starting to see early signs of cyclical recoveries, as well as a broader recognition that European stocks have become undervalued relative to other markets. This makes us optimistic about the path ahead.

When we examine the stocks that have depressed performance over the past year, a consistent pattern emerges. Despite addressing long-term growth opportunities, these businesses have frequently experienced near-term fundamental weakness as a result of cyclical downturns, many of which have their roots in the disruption of the pandemic era. On top of this, valuations have been suppressed as capital has fled to the perceived safety of large cap 'GRANOLA' stocks, a grouping that includes pharma companies like Roche, Sanofi, and Novartis as well as consumer giants like L'Oréal. As a result, the ten largest companies in Europe now account for almost 25% of the index, the highest level of market concentration since 2008. While some of this large-cap outperformance has been driven by fundamentals, much of it has been the result of swelling multiples. For example, price/earnings-to-growth (PEG) multiples have expanded to an average of 3.0x for the GRANOLA group, compared to 2.0x for the index.

While this may be frustrating for stock pickers in the short term, it is good news for truly active investors with their eyes on the long-term picture. It is precisely because European growth stocks are so unloved at the moment that they are so enticing. In our conversations with companies and management teams, we are starting to see indications that numerous cycles are on the verge of turning. And with a recovery in fundamental performance, we would also expect to see valuations rebound, potentially bringing European stocks closer in line with their peers elsewhere.

One of the most significant cyclical headwinds affecting the portfolio has been the destocking effect, which refers to customers delaying new orders while they use up the excess inventories built up during the supply chain blockages of the pandemic era. A good

example of an exceptional business weighed down by destocking is Sartorius Stedim, one of the largest suppliers of bioreactors to the biotechnology sector. Sartorius Stedim addresses a €6.5bn market opportunity and has compounded its revenues at nearly 17 per cent per annum over the past decade; however, destocking by its' customers has caused revenues over the past twelve months to dip 14 per cent below those of the previous period. As ever, the market has punished Sartorius for this short-term weakness, with shares down 23% over the past year. Despite this, we are starting to see light at the end of the tunnel. Sartorius' customers are nearing the completion of their destocking, and Sartorius Stedim's order intake has begun to increase. This gives us confidence that the company is returning to growth, which we believe will be received positively by the market.

A similar story can be observed with Soitec, whose silicon-on-insulator (Sol) substrates can be found in almost every smartphone produced worldwide. The Sol market is expected to grow at an almost 13 per cent compound annual growth rate (CAGR) over the next decade, but it experiences regular fluctuations driven by inventory levels at semiconductor foundries, its customers. Destocking caused Soitec's revenues to contract 10 per cent in the 2024 financial year. Yet the foundries have now purged most of their excess Sol inventories, and Soitec is beginning to see orders rebound. With a cyclical rebound in revenues, operating leverage should drive double digit growth in profits. And with Soitec currently trading on a historically low cyclically adjusted P/E multiple, we anticipate an even sharper rebound in stock price.

Cyclical headwinds have also given us the opportunity to add to companies that we have admired for a while. Dino Polska, for example, is a chain of Polish supermarkets which is rapidly expanding across the Polish countryside, having historically grown its sales at over 30 per cent per annum. Not only does Dino generate extraordinary greater than 20 per cent returns on invested capital, but it continually reinvests all internally generated cash into opening new stores at a rate of nearly one per day. We believe that Dino can double its current store count by the end of the decade, which could create tremendous upside for current shareholders. Dino's shares are currently available for 27 times on a price-to-earnings multiple basis (P/E), far below their historical average of ~37 times P/E, and we believe that the current multiple significantly underprices Dino's growth opportunity. The reason for this is an ongoing price war between Polish supermarkets as a result of a short-lived period

of food deflation. This deflation has now subsided, and there are signs that the price war is also easing. Historically, Polish supermarkets have rebounded strongly after periods of deflation, so there may be a cyclical rebound in valuation to boost the returns from Dino's long-term growth opportunity.

The same story has played out in other sectors as well. There has been a lull in construction activity in parts of Northern Europe, which has affected companies like Kingspan and Instalco, as well as softer consumer demand for flights, which has been a headwind for Ryanair over the past couple of quarters. But there are signs of life here, too: orders for Kingspan's insulation products are once again in the double digits, and Ryanair expects stronger pricing in 2025 as a result of constrained airline capacity in Europe. Under ordinary circumstances, it would be unusual for multiple cycles to coincide. The past few years, however, have been anything but ordinary. The disruption of the pandemic created a supercycle whose aftershocks are still being felt several years later. But as these cyclical headwinds start to subside, we are optimistic that Europe's best businesses will emerge from this period even stronger.

### Portfolio Turnover

Turnover has been higher than normal in 2024 at 33 per cent, versus our expected range between 10 and 20 per cent. In the main, this has represented our desire to take advantage of the many undervalued long-term growth opportunities that the market has presented us. This led to taking new holdings like ASM International, a global leader in manufacturing deposition equipment for semiconductor manufacturers, which we bought for the portfolio in October. However, in the fourth quarter, the vast majority of turnover has been the result of several complete sales as we seek to concentrate the portfolio and focus on higher conviction ideas. We sold holdings in Wizz Air, Mettler-Toledo, Dassault-Systemes, Vitec, Eurofins and CRISPR Therapeutics. The common theme running throughout these decisions was that we had concerns which would prevent us from adding further to the relatively small holdings in each stock. Therefore, with a desire to allocate more capital to companies in which we have higher conviction, such as Camurus, a Swedish biotech, EQT, a private equity firm, and Dino Polska, mentioned earlier, we sold those positions.

### Outlook

There is a strong human tendency to extrapolate past trends into the future. But it is precisely during periods like this that patient, long-term, active investors have the advantage. While the market frets about cyclical headwinds, valuations look depressed, and short-term investors may sell. But once these headwinds abate, the potential for future returns is even greater. A recovery in business fundamentals should be rewarded by the market with a rerating, which would bring the valuations of European growth stocks closer to those of their American and international peers. So, while it may seem contrarian, we believe that there couldn't be a better time to be invested in European growth stocks.

## Performance Objective

+2 to 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

<b>GBP</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	-6.2	-4.2	-2.0
1 Year	-0.3	2.8	-3.0
3 Years	-11.6	3.5	-15.1
5 Years	1.6	7.1	-5.5
10 Years	7.9	8.6	-0.7
Since Inception	8.5	8.2	0.3
<b>USD</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	-12.4	-10.5	-1.9
1 Year	-2.0	1.0	-3.0
3 Years	-13.9	0.8	-14.7
5 Years	0.5	5.9	-5.4
10 Years	5.6	6.2	-0.7
Since Inception	7.7	7.4	0.3
<b>EUR</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	-5.6	-3.5	-2.0
1 Year	4.5	7.7	-3.2
3 Years	-11.1	4.0	-15.1
5 Years	2.1	7.6	-5.5
10 Years	7.2	7.9	-0.7
Since Inception	8.0	7.8	0.2
<b>CAD</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	-6.7	-4.7	-2.0
1 Year	6.9	10.1	-3.3
3 Years	-10.1	5.3	-15.3
5 Years	2.6	8.1	-5.6
10 Years	7.9	8.6	-0.7
Since Inception	8.4	8.1	0.3
<b>AUD</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	-1.8	0.3	-2.1
1 Year	8.0	11.3	-3.3
3 Years	-9.1	6.4	-15.5
5 Years	3.1	8.6	-5.6
10 Years	8.5	9.3	-0.7
Since Inception	8.5	8.2	0.3

Annualised periods ended 31 December 2024. 3 Month & 1 Year figures are not annualised.

Inception date: 31 December 1989

Figures may not sum due to rounding.

Benchmark is MSCI Europe ex UK Index (FTSE World Europe ex UK Index prior to 31 December 2016).

Source: Revolution, MSCI, FTSE.

The Europe ex UK composite is more concentrated than the MSCI Europe ex UK Index.

## Discrete Performance

<b>GBP</b>	<b>31/12/19- 31/12/20</b>	<b>31/12/20- 31/12/21</b>	<b>31/12/21- 31/12/22</b>	<b>31/12/22- 31/12/23</b>	<b>31/12/23- 31/12/24</b>
Composite Net (%)	43.5	9.3	-35.7	7.7	-0.3
Benchmark (%)	8.2	17.6	-6.9	15.8	2.8
<b>USD</b>	<b>31/12/19- 31/12/20</b>	<b>31/12/20- 31/12/21</b>	<b>31/12/21- 31/12/22</b>	<b>31/12/22- 31/12/23</b>	<b>31/12/23- 31/12/24</b>
Composite Net (%)	48.0	8.3	-42.9	14.1	-2.0
Benchmark (%)	11.6	16.5	-17.3	22.7	1.0
<b>EUR</b>	<b>31/12/19- 31/12/20</b>	<b>31/12/20- 31/12/21</b>	<b>31/12/21- 31/12/22</b>	<b>31/12/22- 31/12/23</b>	<b>31/12/23- 31/12/24</b>
Composite Net (%)	35.8	16.5	-39.1	10.2	4.5
Benchmark (%)	2.4	25.4	-11.9	18.5	7.7
<b>CAD</b>	<b>31/12/19- 31/12/20</b>	<b>31/12/20- 31/12/21</b>	<b>31/12/21- 31/12/22</b>	<b>31/12/22- 31/12/23</b>	<b>31/12/23- 31/12/24</b>
Composite Net (%)	45.4	7.4	-38.7	11.0	6.9
Benchmark (%)	9.7	15.5	-11.3	19.4	10.1
<b>AUD</b>	<b>31/12/19- 31/12/20</b>	<b>31/12/20- 31/12/21</b>	<b>31/12/21- 31/12/22</b>	<b>31/12/22- 31/12/23</b>	<b>31/12/23- 31/12/24</b>
Composite Net (%)	34.9	14.9	-38.7	13.4	8.0
Benchmark (%)	1.7	23.7	-11.3	21.9	11.3

Benchmark is MSCI Europe ex UK Index (FTSE World Europe ex UK Index prior to 31 December 2016).

Source: Revolution, MSCI, FTSE.

The Europe ex UK composite is more concentrated than the MSCI Europe ex UK Index

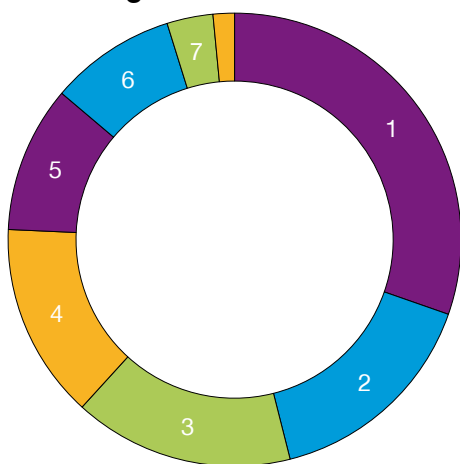


**Top Ten Largest Holdings**

Stock Name	Description of Business	% of Portfolio
DSV	Freight forwarder	6.3
Prosus	Portfolio of online consumer companies including Tencent	5.8
Topicus.com	Acquirer of vertical market software companies	5.3
Ryanair	European low-cost airline	5.2
Schibsted	Media and classifieds advertising platforms	5.0
Spotify	Streaming platform for audible content	4.0
ASML	Semiconductor equipment manufacturer	3.9
Novo Nordisk	Pharmaceutical company	3.5
Nexans	Cable manufacturing company	3.5
Reply	IT consulting and systems integration provider	3.3
<b>Total</b>		<b>45.9</b>

Totals may not sum due to rounding.

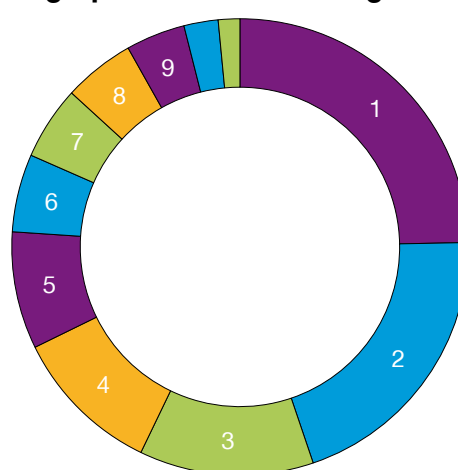
**Sector Weights**



	%
1 Industrials	30.3
2 Consumer Discretionary	15.7
3 Information Technology	15.7
4 Financials	14.0
5 Health Care	10.5
6 Communication Services	9.0
7 Consumer Staples	3.3
8 Cash	1.5

Totals may not sum due to rounding

**Geographical Location Weights**



	%
1 Netherlands	24.7
2 Sweden	20.1
3 Denmark	12.4
4 France	10.6
5 Ireland	8.3
6 Norway	5.5
7 Italy	5.2
8 Switzerland	5.1
9 Poland	4.2
10 Germany	2.4
11 Cash	1.5

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	2	Companies	None	Companies	None
Resolutions	10	Resolutions	None	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	Instalco AB (publ)
Governance	ASML Holding N.V., Allegro.eu S.A., Compagnie Financière Richemont SA, Kinnevik AB, Moncler S.p.A., Reply S.p.A., Ryanair Holdings plc, Schibsted ASA
Strategy	Epiroc AB (publ), Moncler S.p.A.

Company	Engagement Report
Instalco	<p>Objective: Instalco is a Swedish headquartered group of subsidiaries offering construction installation services in the Nordics. These services enable efficiency gains by controlling the flow of air, water, and energy in the built environment. This is important as building operations significantly contribute to global final energy use and emissions. Instalco can use its influence with customers to accelerate decarbonisation efforts. However, we noted the absence of group-wide emissions data in reporting, which is our baseline expectation for holdings. We engaged with Instalco's Head of Communications and Sustainability to discuss its approach to emissions reporting, green building certifications, and energy efficiency technology.</p> <p>Discussion: We learned that Instalco has already started collating emissions reporting data for some subsidiaries in preparation for the EU regulatory reporting requirements. This may be a challenging undertaking for an organisation with over 160 independent subsidiaries. Still, we referenced other decentralised distribution businesses where we've observed significant progress in group-wide emissions disclosure and target-setting ambition. We also explored the context behind developing its own in-house green building certification. This fits with Instalco's spirit of competitive collaboration; subsidiaries are motivated to have the highest number of projects certified according to the classification as a mark of quality and sustainability, but they also support each other in achieving it as part of collaborative projects (e.g. the recent project wins for several subsidiaries in the Gothenburg Central Station development).</p> <p>Outcome: We gained clarity on the timeline for emissions reporting and targets and additional context on the proactive role that Instalco plays in decarbonising building operations. We will monitor for progress on group-level emissions data as the underpinnings of a broader climate strategy.</p>
Moncler S.p.A.	<p>Objective: We met with Luciano Santel (chief corporate officer), Gino Fisanotti (chief brand officer), and Robert Triefus (chief executive officer (CEO) of Stone Island), to seek perspective on LVMH's recent investment in the company. We also discussed Triefus' intentions for Stone Island since he was appointed as CEO in 2023.</p> <p>Discussion: LVMH's effective ownership of Moncler is likely to increase to 5 per cent over the next 18 months and shall also include a seat on Moncler's board. Why and what this means in practice remains unclear. There are no contractual provisions or commitments beyond what has been announced, and (for the foreseeable future at least) Moncler will remain entirely independent. Santel acknowledged there is precedent whereby LVMH has invested in other luxury brands and remained in the background for a very long time. Turning to Stone Island, Triefus explained that the currently weak top-line growth masks the transformation happening behind the scenes whereby the wholesale business is being deliberately rationalised in favour of the direct-to-consumer business (replicating Moncler's model). Rightsizing this will take time, with wholesale still accounting for just over half of Stone Island's total sales vs. 20 per cent for Moncler.</p> <p>Outcome: This meeting did not help us to gain greater insight into LVMH's intentions with Moncler. Management seemed more scripted than usual and claimed they probably didn't know more than us on the matter. We will continue to monitor. Meanwhile, Stone Island's orientation towards its direct-to-consumer business is encouraging.</p>

Company	Engagement Report
Schibsted	<p>Objective: Schibsted is a collection of online marketplaces that connect consumers with sellers in the areas of mobility, recommerce, real estate, and jobs. The remuneration committee chair, who joined in April, sought our feedback as part of the redesign of the executive remuneration framework. This is a period of change for the business, with the appointment of a new chief executive officer (CEO) and Schibsted's exit from the legacy news media business. Concerns with the existing remuneration structure had led us to abstain on the the previous remuneration committee chair at the annual general meeting (AGM). These relate to the absence of retrospective disclosure on payouts against performance targets and poor disclosure around the use of retention awards. We therefore welcomed this opportunity to continue engagement on the topic.</p> <p>Discussion: We referenced Baillie Gifford's remuneration principles, published this year. These outline our preference for simplicity, emphasis on equity ownership, and long-term pay structures. We also discussed the potential inclusion of non-financial metrics, peer group construction for relative share price metrics, and the tax implications of different types of equity grants to executives. We shared two examples of remuneration structures that are distinctive and provide strong alignment with long-term shareholders but noted that there is no one-size-fits-all approach. It was a candid discussion and a good relationship-building exercise with the new remuneration committee chair.</p> <p>Outcome: We were encouraged that the remuneration committee are consulting shareholders during the design phase of a new remuneration plan. We expressed interest in reviewing the plan once it is finalised ahead of the April AGM.</p>

**Votes Cast in Favour**

Companies	Voting Rationale
Adyen NV, Kinnevik	We voted in favour of routine proposals at the aforementioned meeting(s).

**Votes Cast Against**

We did not vote against any resolutions during the period.

**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
ASM International	We have made a new investment in ASM International, a semiconductor equipment manufacturer focused on advanced deposition technology. ASM is the leader in single wafer atomic layer deposition (ALD), a next-generation technology in high-precision deposition, an early process step in the production of leading-edge semiconductors. This is a fast-growing segment within the semiconductor equipment space, and we believe demand will continue to rise driven by increasing process intensity, rising capex and market share gains. Over the past decade, ASM has transitioned to create a strong leading position in ALD at a time when the process technique is becoming increasingly critical to advanced semiconductor chip architectures.

## Complete Sales

Stock Name	Transaction Rationale
CRISPR Therapeutics	We have sold the position in gene editing biotech company, CRISPR Therapeutics. While it fulfilled our investment hypothesis of becoming the first company to receive FDA approval for a CRISPR-based therapy, the subsequent change in the valuation has been disappointing. With catalysts for an uplift in valuation less clear in the medium-term, we decided to sell and put the capital to work in higher conviction ideas.
Dassault Systemes	We have sold the position in French software company, Dassault Systemes. Our conviction has been weakened by research which suggests its competitive position in some of its product lines, such as its software for clinical trials management, isn't as strong as we had initially believed. As a result, we decided to sell and reinvest the capital into higher conviction ideas.
Eurofins	We have sold the position in testing business, Eurofins. Its share price performance has been poor, leading to the position size becoming increasingly small. We decided that rather than maintaining the position, it would be more prudent to reinvest the capital in higher conviction ideas.
Mettler-Toledo	We have sold the position in precision weighing equipment manufacturer, Mettler-Toledo. Its valuation looks stretched and we believe the probability of a further doubling in value looks limited.
Vitec Software Group	We have sold the position in Vitec, a serial acquire of vertical market software businesses. This has been an unusually short holding period for us. In recent earnings releases we have become increasingly concerned about aspects of the company's accounting and signs of poor earnings quality. For these reasons, we decided to act swiftly and move on from the investment.
Wizz Air Holdings	Wizz Air is a ultra-low cost airline, focused on Central and Eastern Europe, immature markets that offer the potential for significant growth in air travel. Since taking a holding for the portfolio, Wizz has encountered a number of operational challenges. At the same time, it is facing increasing competition from Ryanair - a formidable operator also held in the portfolio. Taking this into account we decided to sell the shares.

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