

## Baillie Gifford Responsible Global Equity Income Fund

30 June 2024

### About Baillie Gifford

<b>Philosophy</b>	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
<b>Partnership</b>	100% owned by 58 partners with average 20 years' service Ownership aligns our interests with those of our clients Enables us to take a thoughtful, long-term view in all that we do Stability, quality and consistency

### Investment Proposition

The Fund invests in an actively managed and well-diversified portfolio of stocks from around the world. It generally contains 50–80 stocks, and positions at initiation are typically 1–3 per cent of the portfolio. We seek to ensure a high degree of diversification of both income and capital, with no stock representing more than 5 per cent of the portfolio's income stream or capital at the time of purchase.

### Fund Facts

Fund Launch Date	06 December 2018
Fund Size	£1187.3m
IA Sector	Global Equity Income
Active Share	86%*
Current Annual Turnover	9%
Current number of stocks	51
Stocks (guideline range)	50-80

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

### Fund Manager

Name	Years' Experience
James Dow*	20
Ross Mathison	16

\*Partner

## Fund Objective

To achieve (after deduction of costs) growth in both income and capital over rolling five-year periods, whilst delivering a yield higher than that of the MSCI ACWI Index over rolling five-year periods.

The manager believes this is an appropriate benchmark given the investment policy of the Fund and the approach taken by the manager when investing. In addition, the manager believes an appropriate performance comparison for this Fund is the Investment Association Global Equity Income Sector.

There is no guarantee that this objective will be achieved over any time period and actual investment returns may differ from this objective, particularly over shorter time periods.

## Periodic Performance

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)
Class B-Inc (%)	1.9	12.5	8.1	11.1
Benchmark (%)*	2.9	20.6	9.1	11.4
Sector Average (%)**	0.5	12.8	7.5	8.0

Source: FE, Revolution, MSCI. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Benchmark is calculated close-to-close.

Baillie Gifford operates a single swinging price for the Fund and, therefore, may apply a dilution adjustment to the price to protect long-term investors from the costs associated with buying and selling underlying investments that result from other investors joining or leaving the Fund.

This adjustment will affect relative performance, either positively or negatively.

\*MSCI ACWI Index.

\*\*IA Global Equity Income Sector.

## Discrete Performance

	30/06/19- 30/06/20	30/06/20- 30/06/21	30/06/21- 30/06/22	30/06/22- 30/06/23	30/06/23- 30/06/24
Class B-Inc (%)	8.4	23.6	-2.1	14.6	12.5
Benchmark (%)*	5.7	25.1	-3.7	11.9	20.6
Sector Average (%)**	-2.6	21.2	1.0	9.2	12.8

Source: FE, Revolution, MSCI. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Benchmark is calculated close-to-close.

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## Market environment

“In charge”. The letters, in gold, were on Christine Lagarde’s necklace when she hosted the European Central Bank’s press conference in June. The European Central Bank (ECB) was the first major Western Central Bank to cut its interest rates and Madame Lagarde wanted the world to know.

Global economic activity over the past three months has extended the pattern seen in the first quarter: a resilient US economy, some improvement from a low base in Europe and the Chinese economy stabilizing.

Importantly, inflation has been coming down almost everywhere, if not in a straight line. That gives Central Banks room to cut rates, and the ECB was the first one to act.

The year was already rich in elections, but President Macron must have felt that France was being left out. After his party suffered a heavy defeat in the European elections, the French president unexpectedly called a national election.

History shows, however, that elections come and go and rarely exert a lasting influence on economies. Of course, there are some exceptions, but over the past few decades, the impact of politics on companies and markets has been rather subdued.

## Performance

In the second quarter, the fund delivered positive returns but lagged the benchmark.

We need to talk about NVIDIA. The simple fact of not holding it explains ~60% of the relative underperformance. NVIDIA is like the tour de France cyclist gone on an *échappée solitaire*, leaving everyone behind.

Do we fear missing out? No, because at this stage in the Artificial Intelligence (AI) hype cycle, sentiment takes over, making rational decisions difficult. We have exposure to AI through other companies. Microsoft for example, has a strategic partnership with OpenAI, offers AI infrastructure in his Cloud services and is one of the first companies able to monetize AI through their software tools. Intuit, the US software company, is putting to use the large amount of proprietary data they hold to design better solution and services for their customers.

Taiwanese company TSMC is another example, who tops the list of contributors to performance in the quarter. It manufactures the precious NVIDIA chips, which is no small feat: the Blackwell GPU holds 208 billion transistors on an area as “large” as a mobile phone screen. TSMC is today the dominant supplier of leading-edge semiconductors

as a result of a decades-long, relentless drive to innovate alongside customers and invest in research and development.

Other contributors to performance include French power equipment company Schneider Electric and Swedish industrial company Atlas Copco, who both benefit from AI-related investment. Schneider is a world-leading supplier of power equipment to datacentres and is seeing strong acceleration in that business. Atlas Copco is a major supplier of highly technical vacuum technology, a critical piece of equipment in chip manufacturing facilities.

Once again, Novo Nordisk is amongst the top contributors to performance and the approval in June of its flagship anti-obesity drug in China provided further momentum to the share price.

Beyond the impact of NVIDIA, some holdings weighed on returns. US distributor Fastenal saw its share price retreat after reaching an all-time high in April. It is one of very few companies which publish monthly sales figures, feeding the financial market’s appetite for trade-inducing noise. Zoom out to the five-year period, however, and Fastenal is a top contributor to performance.

Other names weighing on performance were the lithium producer Albemarle on lingering concerns about a slowdown in the electric vehicles market and the Brazilian stock-exchange B3 as investors worry about short-term political tensions.

## Stewardship

Over the past quarter, we have delved into the performance of the fund’s Consumer Packaged Goods companies’ performance across various environmental matters and efforts on improving the nutritional profiles of their products. Which was timely, given the emerging debate on ultra-processed foods (UPF), an area characterised by nascent science but growing consumer concern. We engaged with Nestlé to understand their approach to UPF. Nestlé’s ‘Good For You’ health strategy emphasises education and transparency, but our discussions revealed a reliance on traditional metrics like the Health Star Rating (HSR), which does not account for UPF issues.

We take some encouragement from Nestlé’s aim to increase nutritious sales by 50% by 2030. Their ‘Good For You’ strategy indicates an understanding of health trends, though there remains room for more proactive steps regarding UPF. We also probed how the company reviews marketing promotions, in relation to health claims. There is a centralised function that monitors these, and the company has adopted general guidance to not to use the terms ‘healthy’ or ‘nutritious’, but only to

use in conjunction with 'as part of a healthy lifestyle'. This remains an area of focus for our engagement with the company.

### **Notable transactions**

Dolby Laboratories makes software for audio and vision applications. Over the past decade, results have been solid but our analysis is that the company faces an ongoing headwind from pricing, with limited ability to raise its own prices due to intense competition among electronic device makers.

Meanwhile, highly technical engineers' pay keeps rising, so although Dolby Laboratories has come up with innovations, it has struggled to grow its profits at an attractive rate. We do not see this fundamentally changing, so we have divested from the holding.

Luxury group Kering, owner of brands such as Gucci and YSL, recorded several years of strong growth in profits after a turnaround at Gucci in 2015. However, the company appears to have gone off track over the past few months. We are not convinced by new strategy whilst there has been a great deal of churn in management. The company is now quite leveraged and we are concerned that a prolonged period of weak sales may potentially lead to financial difficulties, so we divested from the holding.

### **Market Outlook**

Global equity markets have delivered strong returns over the last 12 months, supported by decelerating inflation, resilient global economic activity and AI excitement. Interest rate cuts by Central Banks are expected in the coming months, but likely priced in by financial markets already.

Geopolitical tensions are high and new trade barriers are being erected, but global equity markets' volatility has been unusually low since Q4 2023. Whatever the reasons, it would be unwise to assume that we have just entered a new era of low volatility. We believe that it is thus critical to maintain the diversification and the quality growth characteristic of the fund that gives it resilience in more volatile environments.

## Stock Level Attribution

### Top and Bottom Ten Contributors to Relative Performance

#### Quarter to 30 June 2024

Stock Name	Contribution (%)
TSMC	0.6
Novo Nordisk	0.4
Analog Devices	0.3
Hargreaves Lansdown	0.3
Atlas Copco A	0.3
Watsco Inc	0.2
Schneider Electric SE	0.2
Experian	0.1
Roche	0.1
United Overseas Bank	0.1
NVIDIA	-1.0
Fastenal	-0.9
Albemarle	-0.4
Alphabet	-0.4
Edenred	-0.4
B3	-0.3
Partners Group	-0.3
Sonic Healthcare	-0.2
UPS	-0.2
Pepsico	-0.2

#### One Year to 30 June 2024

Stock Name	Contribution (%)
Novo Nordisk	1.9
TSMC	1.0
Carsales.com	0.5
Tesla Inc	0.4
Schneider Electric SE	0.4
Partners Group	0.3
Atlas Copco A	0.3
Intuit	0.3
SAP	0.3
Wolters Kluwer NV	0.2
NVIDIA	-2.4
Albemarle	-1.3
Edenred	-1.1
Sonic Healthcare	-1.0
UPS	-1.0
B3 S	-0.9
Pepsico	-0.7
Alphabet	-0.6
Nestle	-0.5
Roche	-0.5

Source: Revolution, MSCI. Baillie Gifford Responsible Global Equity Income Fund relative to MSCI ACWI Index.

Some stocks may only have been held for part of the 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. See the List of Holdings section of this report for the stocks held.

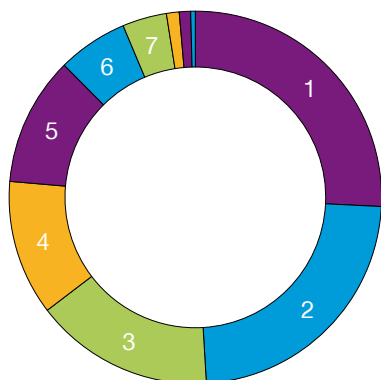
Transactions from 01 April 2024 to 30 June 2024.

There were no new purchases during the period.

### Complete Sales

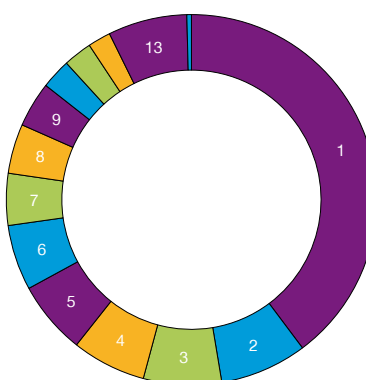
Stock Name	Transaction Rationale
Dolby Laboratories	Dolby makes software for audio applications, such as the sound encoded in broadcast TV. It has been a holding in our funds since 2018, and although the company's results have been solid, we have been underwhelmed by the pace of revenue and profit growth. Our analysis is that structurally, the company faces an ongoing headwind from pricing, with limited ability to raise its own prices due to intense competition among electronic device makers. Meanwhile the cost of salaries for its technical staff continues to rise. The result is that even though Dolby has come up with innovations such as spatial audio, and has branched into video as well as sound, it has struggled to grow its profits at an attractive rate. We do not see this fundamentally changing. The valuation of the shares suggests the market is quite optimistic about future profit growth. We see better opportunities for capital growth elsewhere, so divested from the holding.
Kering	This luxury goods manufacturer, owner of brands such as Yves Saint Laurent, has been a successful investment since we purchased the holding in 2018. The successful turnaround in the fortunes of its flagship brand, Gucci, under a new creative director subsequently drove several years of tremendous growth in the profits of the company. However, in the past 18 months, the company appears to have gone off track. The creative director has left and there has been a great deal of churn in the management team. The company has adopted a new strategy for Gucci which we do not believe is very likely to succeed. The company is now quite leveraged, both operationally and financially, and we are concerned that it will see a prolonged period of weak sales and potentially even financial difficulties going forward. With its prospects looking unattractive, we divested from the holding.

Sector Exposure



		%
1	Industrials	26.0
2	Information Technology	23.5
3	Financials	15.7
4	Health Care	11.8
5	Consumer Staples	11.3
6	Consumer Discretionary	6.1
7	Communication Services	3.9
8	Utilities	1.1
9	Materials	1.0
10	Cash	-0.4

Geographic Exposure



		%
1	United States	40.1
2	Switzerland	7.7
3	France	6.9
4	Denmark	6.5
5	UK	6.4
6	Taiwan	5.8
7	Australia	4.6
8	Sweden	4.4
9	Germany	4.0
10	China	2.6
11	Netherlands	2.5
12	Hong Kong	2.0
13	Others	7.0
14	Cash	-0.4

As well as cash in the bank, the cash balance includes unsettled cash flows arising from both shareholder flows and outstanding trades. Therefore, a negative balance may arise from timing differences between shareholder flows and security trading, and does not necessarily represent a bank overdraft.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
Novo Nordisk	Pharmaceutical company	5.3
Microsoft	Technology company offering software, hardware and cloud services	5.2
TSMC	Semiconductor manufacturer	5.0
Watsco	Distributes air conditioning, heating and refrigeration equipment	4.6
Schneider Electric	Electrical power products	3.9
Fastenal	Distribution and sales of industrial supplies	3.8
Procter & Gamble	Household product manufacturer	3.6
Apple	Computing and media equipment	3.4
Atlas Copco	Manufacturer of industrial compressors	3.3
Analog Devices	Manufacturer of analogue semiconductors	3.1
<b>Total</b>		<b>41.1</b>

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	35	Companies	16	Companies	7
Resolutions	562	Resolutions	42	Resolutions	7

Company Engagement

Engagement Type	Company
Environmental	Albemarle Corporation, PepsiCo, Inc., Taiwan Semiconductor Manufacturing Company Limited, United Parcel Service, Inc.
Social	Albemarle Corporation, Nestle S.A., TCI Co., Ltd., Taiwan Semiconductor Manufacturing Company Limited
Governance	Albemarle Corporation, Arthur J. Gallagher & Co., Cognex Corporation, Edenred SE, Epiroc AB (publ), Fastenal Company, Hargreaves Lansdown plc, Nestle S.A., Partners Group Holding AG, PepsiCo, Inc., TCI Co., Ltd., Taiwan Semiconductor Manufacturing Company Limited, Texas Instruments Incorporated, The Home Depot, Inc., United Parcel Service, Inc.
Strategy	TCI Co., Ltd.

For further details on company engagement please contact us. You can also find further information on how we integrate environmental, social and governance (ESG) matters into our investment approach, [here](#).



Asset Name	Fund %
Novo Nordisk	5.3
Microsoft	5.2
TSMC	5.0
Watsco	4.6
Schneider Electric	3.9
Fastenal	3.8
Procter & Gamble	3.6
Apple	3.4
Atlas Copco	3.3
Analog Devices	3.1
Partners	2.7
PepsiCo	2.6
CAR Group	2.6
Deutsche Börse	2.6
Wolters Kluwer	2.5
Experian	2.5
United Parcel Service	2.2
Intuit	2.1
AJ Gallagher	2.0
Roche	2.0
Admiral Group	2.0
Sonic Healthcare	1.9
Nestlé	1.8
L'Oréal	1.6
SAP	1.4
United Overseas Bank	1.4
Edenred	1.4
Midea	1.4
NetEase	1.2
Kuehne & Nagel	1.2
Cisco Systems	1.2
Coloplast AS	1.2
Anta Sports Products	1.2
Texas Instruments	1.1
Greencoat UK Wind	1.1
Epiroc	1.1
B3	1.1
Amadeus IT Group	1.0
Albemarle	1.0
Valmet	1.0
Starbucks Corp	1.0
AVI	1.0
Cognex Corp	0.9
Hargreaves Lansdown	0.9
T. Rowe Price Group, Inc.	0.9
USS	0.9
Hong Kong Exchanges & Clearing	0.9
Medtronic	0.8
TCI Co	0.7

Asset Name	Fund %
Home Depot	0.7
Eurofins	0.6
Cash	-0.4
<b>Total</b>	<b>100.0</b>

Please note the fund information contained within this document is proprietary information and should be maintained as such and not disseminated. The content is intended for information purposes only and should not be disclosed to other third parties or used for the purposes of market timing or seeking to gain an unfair advantage.

Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Inc	06 December 2018	GB00BFM4N494	BFM4N49	0.50	0.54
Class B-Acc	06 December 2018	GB00BFM4CT76	BFM4CT7	0.50	0.54

The table displays the primary shares classes. Other share classes may be available for those investors who have a separate arrangement. Charges will reduce the value of your investment. Please refer to the Prospectus and Key Investor Information Document for further details. The Ongoing Charges Figure ('OCF') may be lower than previous declarations as a result of a revision to how the indirect fees associated with closed-ended investment companies need to be shown. This does not necessarily mean that fund expenses have gone down rather that we have reverted to how they have been calculated until 30 June 2022 to reflect the revised Investment Association's Guidance on Disclosure of Fund Charges and Costs (July 2020, updated January 2022, revised November 2023). A more detailed Costs and Charges disclosure is available upon request.

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#### **Additional Geographical Location Information**

**Israel:** This Report, as well as investment in the Fund described herein, is directed at and intended for Investors that fall within at least one category in each of: (1) the First Schedule of the Israeli Securities Law, 1968 (“Sophisticated Investors”); and (2) the First Schedule of the Investment Advice Law (“Qualified Clients”).

The Fund’s share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the Fund is priced.

As with any investment, the clients’ capital is at risk. Past performance is not a guide to future returns.

Throughout the report all figures are rounded, so any totals may not sum. Not all stocks mentioned may be held by the portfolio.

All information as at 30 June 2024 and source is Baillie Gifford & Co unless otherwise stated.

**Baillie Gifford & Co Limited**  
**Calton Square, 1 Greenside Row, Edinburgh EH1 3AN**  
**Telephone +44 (0)131 275 2000 [bailliegifford.com](http://bailliegifford.com)**