Baillie Gifford™

Baillie Gifford Sustainable Growth Fund

30 September 2024

About Baillie Gifford

Philosophy	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
Partnership	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 portfolio of stocks from around the world with the intention of delivering significantly higher returns than the MSCI ACWI Index. We focus on companies that are sustainable in both senses of the world, delivering enduring growth and enduring good for society. We typically hold 55-80 stocks and seek to outperform the MSCI ACWI by 2-3% per annum over rolling five year periods (the stated objective is in no way guaranteed). Our research framework ensures that we avoid companies whose products or behaviours may cause significant harm to society, or where the company does not deserve our trust.

Fund Facts

Fund Launch Date	07 December 2015
Fund Size	£536.7m
IA Sector	Global
Active Share	89%*
Current Annual Turnover	28%
Current number of stocks	59
Stocks (guideline range)	55-80

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

Fund Manager

Name	Years' Experience
Toby Ross*	18
Katherine Davidson	16

*Partner

Fund Objective

To outperform (after deduction of costs) the MSCI ACWI Index, as stated in sterling, by at least 2% per annum over rolling five-year periods.

The manager believes this is an appropriate target 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 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-Acc (%)	3.6	18.5	-7.5	8.1
Index (%)*	0.6	20.4	8.8	10.8
Target (%)**	1.1	22.9	11.0	13.0
Sector Average (%)***	0.2	16.2	4.5	8.5

Source: FE, Revolution, MSCI. Total return net of charges, in sterling.
Share class returns calculated using 10am prices, while the Index 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.
**MSCI ACWI Index (in sterling) plus at least 2% per annum over rolling five-year periods.
***IA Global Sector.

Discrete Performance

	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
Class B-Acc (%)	60.4	16.6	-35.0	2.7	18.5
Index (%)*	5.8	22.7	-3.7	11.0	20.4
Target (%)**	7.9	25.2	-1.8	13.3	22.9
Sector Average (%)***	7.2	23.2	-8.9	7.8	16.2

Source: FE, Revolution, MSCI. Total return net of charges, in sterling.
Share class returns calculated using 10am prices, while the Index is calculated close-to-close.
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***IA Global Sector.

Market environment

Investors endured 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.

Performance

The Fund showed its resilience against this nervy backdrop, posting good absolute returns in excess of the benchmark. This narrowed the gap with the index that opened in the first quarter of this year. The Fund is now up a respectable amount in 2024, but remains shy of a very concentrated, mega cap-dominated index.

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.

Elsewhere, Latin American ecommerce and fintech 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 Meli finishing the quarter as the largest holding after a strong showing in share price terms.

A reversal of the recent pattern of North American dominance was also helpful for a portfolio with a US underweight and a corresponding European overweight[1]. 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 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 Electric Vehicle (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.

Revenues were better-than-expected when Moderna recently reported results. It posted a narrower-than-expected loss, but cut full-year revenue guidance. Lower orders of its Covid-19 vaccine during the year's flu season in Europe, and a very competitive market for its new RSV vaccine have disappointed investors. However, we believe the sell-off to be an overreaction by the market. This innovative biotech company has an attractive pipeline, with 45 products in development, five of which are in late-stage trials including its combined flu/Covid vaccine for later this year. It has over $10bn of cash on the balance sheet, and an innovative technology which has demonstrated significant potential in developing vaccines and therapeutics for various diseases.

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[1] At time of writing the North American region has delivered twice the return of Europe over 1, 3 and 5 year periods.

Stewardship

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 Kubota's ambitions for its decarbonisation pathway, including both challenges and opportunities.

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 also has a very substantial supply chain carbon footprint - both upstream and downstream.

Kubota is gradually expanding its product offering to include non-fossil alternatives, such as hybrid, battery-powered, and even hydrogen-fuelled equipment. However, the adoption rates of these costly alternative products are currently incredibly low. The company has determined a credible pathway to reduce the emissions from its operations, but it is also heavily dependent on both the Japanese government and the Japanese steel industry to reduce indirect emissions materially. Consequently, Kubota's decarbonisation will likely remain an engagement priority as we continue to build our knowledge and understanding of the company's progress.

Notable transactions

After reducing the NVIDIA stake by over 2% this year, we've sold the remainder this quarter. Since first taking a holding in 2016, NVIDIA has delivered a 55-fold return for the portfolio. Our initial thesis was for its graphics processing units to become relevant beyond gaming, and that came to pass with their use in training large language models for generative artificial intelligence applications. Despite spectacular growth and a valuation multiple that looks undemanding, we are concerned that recent capital expenditure levels from key customers are unsustainable, especially in the absence (so far) of a killer use case for artificial intelligence (AI). NVIDIA’s focus may be its greatest strength, however we have a strong preference for companies with diversified, resilient business models. Our purchase of Microsoft gives us exposure to the AI theme, but in a more diversified way, as we move along the value chain from hardware to software. Across its three main business segments, AI features are strengthening the customer proposition for Microsoft. However, its Azure cloud computing business is the one we’re most excited about. 2/3rds of Fortune 500 companies are using Azure AI features, and as more workloads switch over to the cloud, we expect the familiarity of the Microsoft platform to be a significant draw.

We’ve also taken new positions in insurance giant Marsh & McLennan, Japanese financial technology firm GMO Payment Gateway and medical diagnostics business bioMérieux this quarter.

Market 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 as improved market sentiment spreads from the narrow selection of companies that have benefitted so far this year, to other growth opportunities.

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
Centre Testing	0.3
MarketAxess Holdings	0.3
Inspire Medical Systems	0.3
Eurofins	0.3
IMCD Group NV	0.3
AIA	0.3
Exact Sciences	0.3
Moderna Inc	-0.3
Cognex Corp	-0.3
Staar Surgical	-0.2
MSA SAFETY INC	-0.2
Tesla Inc	-0.2
Apple	-0.2
Advanced Drainage Systems	-0.2
TSMC	-0.1
Spirax-Sarco	-0.1
Savers Value Village	-0.1

One Year to 30 September 2024

Stock Name	Contribution (%)
Spotify Technology SA	1.4
Recruit Holdings	1.1
TSMC	1.0
MercadoLibre	0.8
Beijer Ref	0.6
Wabtec	0.5
Experian	0.4
Shopify	0.3
Atlas Copco B	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 Inc.	-0.5
Nibe Industrier AB 'B' Shares	-0.4
Microsoft	-0.4
L'Oreal	-0.4

Source: Revolution, MSCI. Baillie Gifford Sustainable Growth 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 July 2024 to 30 September 2024.

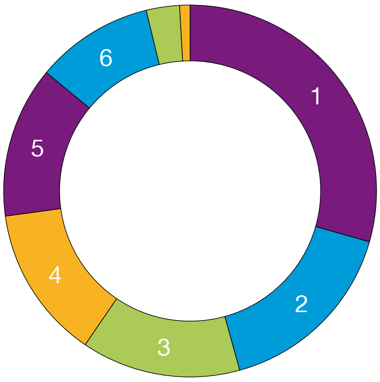
New Purchases

Stock Name	Transaction Rationale
bioMérieux	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.
GMO Payment Gateway	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.
Marsh & McLennan	Marsh & 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.
Microsoft	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 hurdles 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.
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.

Complete Sales

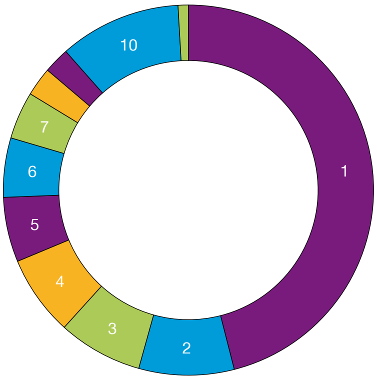
Stock Name	Transaction Rationale
Bridgestone	We have sold out of the position in leading tyre manufacturer Bridgestone. The holding has been a good diversifier for the portfolio but we have growing concerns with its sustainability credentials as tyre retreading for all but heavy vehicles remains elusive. 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 Jenson 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.

Sector Exposure



		%
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

Geographic Exposure



		%
1	United States	46.0
2	Sweden	8.3
3	Japan	7.4
4	UK	7.0
5	France	5.7
6	Brazil	5.2
7	Taiwan	4.1
8	China	2.5
9	Denmark	2.3
10	Others	10.6
11	Cash	0.9

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
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
Total		32.3

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.

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 %
MercadoLibre	4.3
TSMC	4.1
Microsoft	4.0
Illumina	3.1
Recruit Holdings	3.0
UnitedHealth Group	3.0
Alphabet	2.8
Texas Instruments	2.8
Mastercard	2.6
Spotify	2.6
Atlas Copco	2.4
Beijer, G & L AB	2.3
DSV	2.3
Wabtec	2.2
Workday	2.2
Experian	2.1
The Trade Desk	2.0
L'Oréal	2.0
MarketAxess	1.9
New York Times Co	1.9
Shopify	1.8
Eurofins	1.8
Prudential	1.7
Advanced Drainage Systems	1.7
Spirax Sarco	1.6
Wise	1.6
Starbucks Corp	1.5
AIA	1.5
MSA Safety	1.5
Kubota	1.5
IMCD	1.4
HDFC Life Insurance	1.4
Watsco	1.4
Amazon.com	1.4
Marsh & McLennan Cos	1.4
Cognex Corp	1.3
adidas	1.3
Schneider Electric	1.3
Carlisle Companies	1.3
Sartorius Stedim Biotech	1.2
Metso	1.2
bioMerieux S.A.	1.1
Warby Parker (JAND)	1.1
Centre Testing International	1.1
Inspire Medical Systems	1.0
Nintendo	1.0
Rakuten	1.0
Epiroc	1.0
GMO Payment Gateway	0.9

Asset Name	Fund %
Raia Drogasil	0.9
Meituan	0.8
YETI Holdings	0.8
Denali Therapeutics	0.8
Exact Sciences	0.8
STAAR Surgical	0.6
JD.com	0.6
Savers	0.4
Moderna	0.4
Abiomed CVR Line	0.0
Cash	0.9
Total	100.0

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-Acc	07 December 2015	GB00BYNK7G95	BYNK7G9	0.50	0.53
Class B-Inc	27 February 2018	GB00BDDY6H83	BDDY6H8	0.50	0.53

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.

MSCI	Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

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