

Baillie Gifford Sustainable Growth Fund

31 December 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	£523.8m
IA Sector	Global
Active Share	89%*
Current Annual Turnover	28%
Current number of stocks	58
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 (%)	3.0	10.4	-6.1	7.6
Index (%)*	6.1	20.1	8.7	11.8
Target (%)**	6.7	22.6	10.9	14.1
Sector Average (%)***	3.5	12.6	4.1	8.9

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

	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23	31/12/23- 31/12/24
Class B-Acc (%)	71.0	2.0	-35.1	15.6	10.4
Index (%)*	13.2	20.1	-7.6	15.9	20.1
Target (%)**	15.5	22.5	-5.8	18.2	22.6
Sector Average (%)***	15.3	17.7	-11.1	12.7	12.6

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

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***IA Global Sector.

Market environment

The tale of the final quarter of the year largely mirrors the year as a whole, with tech-focused US businesses leading the way and European industrials lagging. The only slight narrative change was that small companies outperformed larger ones in the US, most likely in anticipation of lower taxes and a bonfire of regulation during Donald Trump's second presidential term.

Performance

Over the period, the fund delivered decent absolute returns, chalking up double-digit gains for the year. However, from the perspective of relative performance, it lags a highly concentrated index.

Top performer over the quarter was fintech platform, Wise - international money transfer facilitator. The share price has steadily risen over recent months due to operational progress evidenced through robust results. Cross-border volumes have been rising, as have active customer numbers, and revenues. We believe that the company is leading the way in making overseas transactions easier, faster, and more transparent for millions. Furthermore, there remains a large growth runway ahead. Today, it serves around 5% of the world's international money transfers by volume for individuals (in a market that has been expanding at 19% p.a. since 2022) and only around 0.5% - 1% of transactions for small businesses. By reducing remittance costs and easing the financial burden of living across borders, the company fosters greater financial inclusion.

Shopify and Spotify were also both top contributors in the period, benefitting from strict cost control measures. After divesting from its logistics arm, Shopify is now a pure-play in ecommerce software and is beginning to earn software-like margins. And Spotify has seen revenues increase +20% year-on-year when it reported in November, reflected in gross margin expansion.

With US technology firms performing so strongly, what we don't own was again a drag on performance this quarter, with index-heavyweights NVIDIA and Tesla two of the largest detractors from relative returns.

And Latin American e-commerce and fintech company, MercadoLibre, also detracted over the period. This was primarily driven by a weaker earnings report in the third quarter, which fell short of analyst expectations. Investors reacted negatively to margin compression driven by increased investments in expanding its credit and logistics operations. As long-term shareholders, we believe these investments are evidence of the company's forward-looking, expansion strategy which should bear fruit in the years to come.

Stewardship

Being long-term shareholders allows us to build up strong lines of communication with management of our investee companies. Amazon has been held in the Fund since inception and as such we've had numerous meetings with senior management across a plethora of topics. Our most recent interaction involved meeting with Amazon's experienced environmental, social and governance (ESG) team to discuss several ongoing sustainability concerns. The areas of discussion included employee engagement, supply chain transparency, human rights implications with cloud-hosting, artificial intelligence (AI) governance and commitment to decarbonisation.

The open and frank discussion enabled us to understand the company's position on a variety of subjects. For each concern raised, we were provided with numerically supported evidence to robustly defend the company's position and counter suggestions of unsustainable practices. We heard about various company-wide initiatives to support employee engagement, including the company's 'Dragonfly' software tool that records employee safety-related feedback to turn into measurable action. The company's efforts to meaningfully improve working conditions have reduced recorded injury rates to substantially below the industry average. We also learned about efforts to engage and monitor the company's vast supply chain to reduce the risk of human rights abuses. We were informed about the company's continued, substantial decarbonisation ambitions, including contracting 28GW of renewable power in 2023, equivalent to more than 50 per cent of the installed capacity in the whole of the UK. Finally, the company highlighted the recent board appointment of Stanford University adjunct professor Dr. Andrew Ng. He was previously the head of Google Brain, Baidu's chief scientist and is currently the managing partner of an AI venture fund. His appointment will help to inform the board's perspective on the opportunities and challenges that AI presents from both a social and commercial perspective.

Given the scale and complexity of the company's operations, we expect to continue regularly engaging with the company on a number of sustainability challenges. Unlike some of Amazon's technology peers, the company continues to listen and engage with long-term investors on challenging topics. We were able to hear the company's thoughts on different subjects that have regularly appeared on shareholder proposals and we will continue to constructively engage and thoughtfully vote on each proposal.

Notable transactions

We exited our position in Denali Therapeutics, the biotech focused on neurodegeneration. Denali's mission to get a large molecule drug across the blood-brain barrier to treat diseases like Alzheimer's and Parkinson's remains an admirable one. However, progress through medical trials has been slower than we would have hoped and there is a little in the development pipeline that gets us excited.

We also chose to move on from Chinese ecommerce company, JD.com and European sportswear giant, adidas. In both cases we had waning conviction in the sustainability case as intensifying competition is likely to be prioritised over missions to improve outcomes for people or the planet.

In their place we've added a new position in US cold storage logistics business Lineage. It has acquired a 30% market share, double its nearest competitor. This scale provides resilience against market cycles and enables significant automation investments. Globally, 14% of food is lost between harvest and retail, with a quarter due to lack of refrigeration. Lineage's efficiency improvements could significantly improve this problem, potentially helping to reduce food waste that could feed over a billion people annually.

The other new purchase this quarter is Edwards Lifesciences. Founded in 1958, it is a pioneer in minimally invasive treatments for structural heart diseases. Its key innovation is the transcatheter aortic valve replacement technique, which offers a less invasive alternative to open heart surgery for treating a condition affecting 5% of Americans over 65. Despite recent hospital staffing challenges impacting short-term growth, the company has significant long-term potential for expansion, both in treating moderate heart disease cases and in international markets. A recent share price drop of about one-third presented an attractive investment opportunity.

Market Outlook

The Index's strong return over the past quarter, and the year, has been driven primarily by valuation multiple expansion while earnings growth has been the dominant factor in the fund's return. As we move into 2025, we expect other investors to begin detecting the fundamental strength we perceive in our holdings, leading to improved share price outcomes across a wider spectrum of growth opportunities.

Our approach to investment maintains various points of contact with diverse growth opportunities across sectors and regions. While the market's current narrow focus is on US tech and AI, our broader perspective reveals a rich landscape of operational progress and emerging opportunities. We believe this multi-dimensional view gives us a more complete picture of the investment environment and positions us well for the years ahead.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 December 2024

Stock Name	Contribution (%)
Wise Plc	0.8
Shopify	0.6
Spotify Technology SA	0.6
Warby Parker Inc	0.6
Recruit Holdings	0.5
TSMC	0.3
The Trade Desk	0.2
Mastercard	0.2
Workday Inc	0.1
Edwards Lifesciences Corp	0.1
MercadoLibre	-0.6
Tesla Inc	-0.5
Atlas Copco B	-0.5
Advanced Drainage Systems	-0.4
NVIDIA	-0.4
Apple	-0.4
L'Oreal	-0.4
Experian	-0.4
Broadcom Inc	-0.4
Eurofins	-0.3

One Year to 31 December 2024

Stock Name	Contribution (%)
Spotify Technology SA	1.8
Recruit Holdings	1.2
TSMC	1.1
The Trade Desk	0.7
Warby Parker Inc	0.5
Wabtec	0.5
Shopify	0.3
Samsung Electronics	0.2
Meituan	0.2
Wise Plc	0.2
Tesla Inc	-1.0
L'Oreal	-1.0
Spirax Group	-0.8
MarketAxess Holdings	-0.8
Prudential	-0.8
Sartorius Stedim Biotech	-0.7
Eurofins	-0.6
IMCD Group NV	-0.6
Broadcom Inc	-0.6
Atlas Copco B	-0.6

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 October 2024 to 31 December 2024.

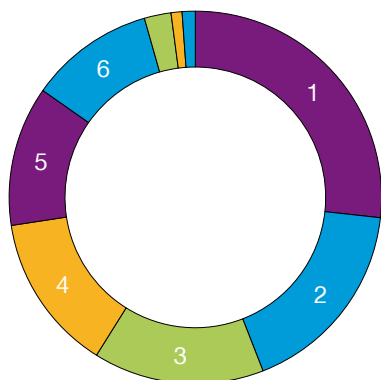
New Purchases

Stock Name	Transaction Rationale
Edwards Lifesciences Corp	Edwards Lifesciences has established itself as a leader in addressing a growing market for structural heart diseases, particularly through its Transcatheter Aortic Valve Replacement (TAVR) and Transcatheter Mitral and Tricuspid Therapies (TMFT). Both are minimally invasive procedures used to treat heart disease without the need for open-heart surgery. Currently, over 75% of revenues are tied to its TAVR franchise, where it is the market leader. We believe it is able to maintain this position based on its track record of innovation, R&D spend (which is three times higher than that of its nearest competitor), as well as a growing target addressable market where currently only 13% of people with severe heart disease are receiving the appropriate treatment. As for its TMFT business, there are over 4 million patients with Mitral and Tricuspid valve issues, and thus this area could potentially be as large as the TAVR opportunity. The company is well-positioned for future growth as ageing populations expand its addressable market, new applications unlock larger patient populations and markets outside of the US adopt its technologies. Short-term headwinds in the healthcare market sent the shares lower recently, offering us an attractive entry point.
Lineage Inc	We have taken a new holding in Lineage Logistics, a US-based company specialising in temperature-controlled transportation and storage. The cold storage sector is fragmented owing to its local nature and high set-up costs. Lineage has pioneered a more professional approach to the cold chain. It acquires and integrates businesses, increasing their efficiency through automation and technology, improving the service proposition and widening its competitive moat. As Lineage's network grows, so does its value to customers. Better transport, storage availability, and technology enable Lineage to be a supply chain partner to its customers rather than just a warehouse supplier. This offering becomes increasingly difficult to replicate as it expands. Lineage can carry on its disciplined business acquisition for years, contributing to attractive revenue and profit growth. Better efficiency and a more integrated cold chain should help reduce food waste, tackling a global challenge while saving customers money.

Complete Sales

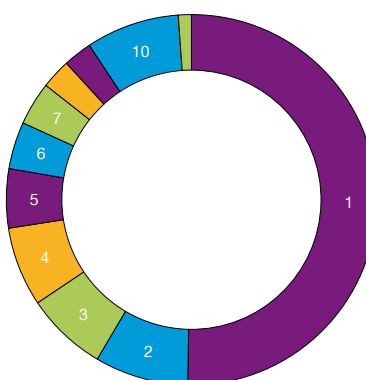
Stock Name	Transaction Rationale
adidas	We have sold the position in German sportswear company, adidas. In recent years, adidas has endured a difficult period of trading. In part this has been due to matters beyond its control, such as the supply chain disruption that happened during the Covid-19 pandemic. However, there have also been a number of strategic missteps. One example is the 'Yeezy' partnership with Kanye West, which had to be concluded early and left the company with unsold inventory, which weighed significantly on profitability. While adidas plays an important role in encouraging its customers to exercise more and is a strong advocate for equality of access to sport, we have less conviction in the company's ambition to prioritise such initiatives going forward. A turnaround has begun under new CEO Bjorn Gulden. With early signs being positive, the valuation has risen and we have decided to use this as an opportunity to fund other ideas where our conviction in the business and its commitment to sustainability is stronger.
Denali Therapeutics	Biotech company, Denali Therapeutics, focuses on developing treatments for neurodegenerative diseases. Its primary goal is to address conditions like Alzheimer's and Parkinson's disease. Growth largely relies on success in its blood-brain barrier (BBB) delivery system. The BBB is a protective layer that shields the brain from harmful substances, and Denali's treatment uniquely allows for specific proteins to be transported across it. However, Denali's share price has been weak reflecting disappointing progress with recent trials and lack of further treatments in the pipeline. Furthermore, competition continues apace, making recruiting patients or market share gains more challenging going forward. As such, we've decided to sell out of the holding, investing instead in companies where growth from here is better understood.
JD.com	We have decided to exit the holding in Chinese e-commerce company, JD.com. Over the last few years, the share price has been trending downwards reflecting a weaker consumer spending environment in China. JD.com is also losing market share to competitor Pinduoduo, is politically exposed to the risk of rapid regulatory changes by the Chinese state, and we have questions around alignment with majority stakeholders. After recent stimulus measures announced by the state, the share price bounced and is up over +60% year-to-date. We saw this as a good time to exit the holding and recycle the proceeds into higher conviction areas.

Sector Exposure



		%
1	Industrials	26.7
2	Information Technology	17.3
3	Health Care	14.8
4	Financials	13.7
5	Communication Services	12.1
6	Consumer Discretionary	10.9
7	Consumer Staples	2.3
8	Real Estate	1.0
9	Cash	1.1

Geographic Exposure



		%
1	United States	50.3
2	Sweden	8.2
3	UK	7.1
4	Japan	6.9
5	France	5.2
6	Taiwan	4.1
7	Brazil	3.8
8	Denmark	2.6
9	Canada	2.5
10	Others	8.2
11	Cash	1.1

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
Microsoft	Technology company offering software, hardware and cloud services	4.5
TSMC	Semiconductor manufacturer	4.1
Alphabet	Search platform, software, cloud services and more	3.8
Recruit Holdings	Property, lifestyle and HR media	3.4
Illumina	Gene sequencing equipment and consumables	3.3
Spotify	Streaming platform for audible content	3.2
MercadoLibre	Latin American e-commerce and fintech platform	3.1
Mastercard	Global electronic payments network and related services	2.9
UnitedHealth Group	Health care company	2.6
DSV	Freight forwarder	2.6
Total		33.5

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	4	Companies	1	Companies	None
Resolutions	32	Resolutions	7	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	Amazon.com, Inc., Moderna, Inc., Shopify Inc., The Trade Desk, Inc.
Social	Amazon.com, Inc., The Trade Desk, Inc.
Governance	AIA Group Limited, Amazon.com, Inc., Eurofins Scientific SE, GMO Payment Gateway, Inc., Illumina, Inc., MarketAxess Holdings Inc., Microsoft Corporation, Moderna, Inc., Prudential plc, Schneider Electric S.E., Shopify Inc., Warby Parker Inc
Strategy	Epiroc AB (publ), Illumina, Inc., Moderna, Inc., Schneider Electric S.E., The New York Times Company, The Trade Desk, 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 %	Asset Name	Fund %
Microsoft	4.5	Moderna	0.8
TSMC	4.1	GMO Payment Gateway	0.8
Alphabet	3.8	YETI Holdings	0.8
Recruit Holdings	3.4	Meituan	0.8
Illumina	3.3	Raia Drogasil	0.7
Spotify	3.2	Exact Sciences	0.7
MercadoLibre	3.1	Savers	0.4
Mastercard	2.9	STAAR Surgical	0.4
UnitedHealth Group	2.6	Abiomed CVR Line*	0.0
DSV	2.6	Cash	1.1
Texas Instruments	2.6	Total	100.0
Shopify	2.5		
Edwards Lifesciences	2.4		
Workday	2.4		
Wise	2.4		
Wabtec	2.3		
The Trade Desk	2.2		
Beijer, G & L AB	2.2		
Atlas Copco	2.0		
Marsh & McLennan	1.9		
New York Times Co	1.8		
Experian	1.7		
Amazon.com	1.7		
MarketAxess	1.7		
Warby Parker (JAND)	1.7		
L'Oréal	1.6		
Prudential	1.5		
Eurofins	1.5		
Starbucks Corp	1.5		
Spirax Sarco	1.5		
MSA Safety	1.5		
IMCD	1.3		
Schneider Electric	1.3		
Advanced Drainage Systems	1.3		
AIA	1.3		
HDFC Life Insurance	1.3		
Cognex Corp	1.2		
Sartorius Stedim Biotech	1.2		
Metso	1.1		
Carlisle Companies	1.1		
Nintendo	1.1		
bioMerieux S.A.	1.0		
Lineage, Inc.	1.0		
Watsco	0.9		
Centre Testing International	0.9		
Inspire Medical Systems	0.9		
Rakuten	0.9		
Epiroc	0.8		
Kubota	0.8		

*Abiomed was acquired in December 2022 by Johnson and Johnson. Holders received a cash allocation plus non-tradable contingent value rights (CVRs).

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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.

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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 31 December 2024 and source is Baillie Gifford & Co unless otherwise stated.

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