

Baillie Gifford European Fund

31 March 2024

About Baillie Gifford

Philosophy	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
Partnership	100% owned by 57 partners with average 21 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 aims to produce long-term returns by investing in a concentrated portfolio of European stocks, constructed with little regard for the index. The Fund adopts a long-term time horizon of five years and beyond and positioning is based on bottom up stock selection. We are growth investors and invest in companies that have the potential to grow sustainably over the long-term.

Fund Facts

Fund Launch Date	17 June 1985
Fund Size	£409.7m
IA Sector	Europe Excluding UK
Active Share	87%*
Current Annual Turnover	20%
Current number of stocks	42
Stocks (guideline range)	30-50

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

Fund Managers

Name	Years' Experience
Stephen Paice	19
Chris Davies	12
Christopher Howarth	5

Fund Objective

To outperform (after deduction of costs) the MSCI Europe ex UK Index, as stated in sterling, by at least 1.5% 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 Europe Excluding UK 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 (%)	7.4	6.3	-5.7	7.6
Index (%)*	7.0	13.6	9.8	10.4
Target (%)**	7.4	15.3	11.4	12.1
Sector Average (%)***	6.4	12.3	7.6	9.5

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 Europe ex UK Index.

**MSCI Europe ex UK Index (in sterling) plus at least 1.5% per annum over rolling five-year periods.

***IA Europe Excluding UK Sector.

Discrete Performance

	31/03/19- 31/03/20	31/03/20- 31/03/21	31/03/21- 31/03/22	31/03/22- 31/03/23	31/03/23- 31/03/24
Class B-Acc (%)	7.7	59.9	-14.1	-8.1	6.3
Index (%)*	-7.5	34.4	6.3	9.5	13.6
Target (%)**	-6.1	36.4	7.9	11.2	15.3
Sector Average (%)***	-9.4	39.6	4.2	6.5	12.3

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 Europe Excluding UK Sector.

Market environment

European equity markets rose strongly in the first quarter of 2024. There has been general optimism regarding global economic growth and that, coupled with expectations of falling interest rates at some point in 2024, has driven markets higher in the short-term.

Performance

The Fund was in line with the benchmark, and outperformed the index in the first quarter. Drug manufacturer Lonza was among the notable contributors to performance. Recent results have shown demand returning after a period of weakness, and it could also benefit from the proposed US Biosecure Act which could lead to less pharmaceutical companies using Chinese drug manufacturers.

The audio streaming company Spotify was another positive contributor. Its shares have been rewarded for increasing profitability without sacrificing growth. Meanwhile, Topicus, a serial acquirer of vertical market software businesses, also contributed. Topicus' full year results for 2023 were very strong with revenues up more than 20 per cent and the company completed a large number of deals over the period.

The notable detractors included Soitec, the dominant manufacturer of performed engineered substrates for semiconductor chips. Its results revealed that its customers, particularly phone makers, are still going through an inventory unwind which will mean that we will see some weakness in the near-term. However, the long-term investment case for Soitec still looks strong. The French luxury conglomerate Kering also detracted from performance. Kering's major asset Gucci is in a period of transition after a strong period prior to covid. Evotec, a contract research organisation for pharmaceutical companies, was another detractor from performance after its CEO stepped down.

Notable transactions

We took three new holdings over the quarter. We purchased a position in Camurus, a profitable Swedish biotech company which reformulates existing medicines in to long-acting injectables (LAIs). It has a large market opportunity in addressing opioid use disorder but the long-term growth case has Camurus applying its technology to create LAIs for a variety of other medicines. We also added another biotech, Genmab. This Danish biotech develops antibody drugs for autoimmune diseases and oncology. Its antibody engineering technology platform has enabled it to pioneer new and more effective drugs and become the partner

of choice for the development of antibody drugs worldwide. It has achieved scale and profitability while maintaining its focus on innovation and agility that large pharma companies tend to lack. The combination of science know-how, cornered technology, and scale means that it has the potential to earn an above-average success rate for not only getting drugs approved, but also commercialising them. The other position bought for the Fund was Assa Abloy, a high-quality Swedish company which is one of the dominant players in the access solutions industry. It has a long runway of decades-long mechanical to electronic tailwind ahead and still some runway to recycle capital into acquisitions despite its size on the back of decades of built-up acquisition and integration experience, both on the Board and executive team.

To fund these purchases we sold four positions. Hemnet, the Swedish residential property platform, was sold on valuation grounds after a period of strong share price performance. We sold the meal kits company HelloFresh after having lost conviction that the company would recover from its latest batch of weak operating and share price performance. We also sold AUTO1, a German second-hand car marketplace due to the prospect of increasing competition and how we no longer believe its underlying economics will improve markedly in a reasonable time frame. The other sale was the online fashion marketplace company, Zalando. The company has endured a tough transition period post-covid and we have lost conviction that its unit economics will improve in a reasonable time frame.

Market Outlook

Optimism is a permanent feature of growth investment but when both cyclical and secular tailwinds are aligned, it's hard to temper it. We have written quarter upon quarter about how we have been pleased with the operational performance from many of the portfolio's companies while also seeking to take advantage of beaten down valuations in structurally advantaged companies. It feels as though we might be beginning to feel the benefits of this. Many have sought refuge in the perceived safety of the largest companies in the index regardless of their fundamentals or valuations. However, with inflection points becoming more obvious, the performance gap between smaller companies and larger ones can begin to close. This gap won't last forever, so we believe that this is the time to be adding to those stocks where we see asymmetric payoffs.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 March 2024

Stock Name	Contribution (%)
Topicus.Com	1.1
Spotify	0.9
Hypoport	0.5
Adyen NV	0.5
Nestle	0.5
Lonza	0.5
Hemnet Group	0.4
Nexans	0.4
Roche	0.3
Schibsted	0.2
Novo Nordisk	-0.7
Soitec	-0.7
AUTO1	-0.5
Evotec	-0.5
Avanza Bank	-0.5
SAP	-0.4
DSV	-0.3
Kering	-0.3
HelloFresh	-0.3
Dassault Systemes	-0.3

One Year to 31 March 2024

Stock Name	Contribution (%)
Schibsted	2.0
Spotify	1.5
Ryanair	1.0
Nestle	1.0
Hypoport	0.9
Lonza	0.7
Adevinta	0.7
Hemnet Group	0.7
EQT	0.5
Roche	0.5
Kering	-1.7
Zalando	-1.6
Prosus	-1.4
Novo Nordisk	-1.4
Wizz Air	-0.9
Kinnevik	-0.8
Avanza Bank	-0.8
DSV	-0.8
Mettler-Toledo	-0.8
HelloFresh	-0.7

Source: Revolution, MSCI. Baillie Gifford European Fund relative to MSCI Europe ex UK 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 January 2024 to 31 March 2024.

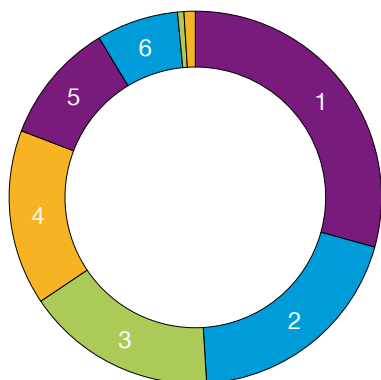
New Purchases

Stock Name	Transaction Rationale
Assa Abloy 'B'	Assa Abloy leads the fragmented access solutions industry. Scale economies and reputation matter the most in the commercial and institutional business where Assa Abloy is most dominant. It has a long runway of decades-long mechanical to electronic tailwind ahead and still some runway to recycle capital to M&A despite its size on the back of decades of built-up M&A and integration experience, both on the Board and executive team. Based on these attractions, we purchased a holding for the portfolio.
Camurus	Camurus is a Swedish biotech company which does not do drug discovery but instead reformulates existing medicines as 'long-acting injectables' (LAIs) using its proprietary drug delivery technology, FluidCrystal. Thus far, it has found most success in the opioid market, and while the opportunity for treating opioid addiction is substantial, Camurus' long-term value lies in extending its FluidCrystal technology to develop LAIs for a variety of other medicines. The company is growing rapidly, is already profitable and can also see its profit margins rise over time simply through operating leverage alone. With these attractions in mind, we took a new holding for the portfolio.
Genmab	Genmab is a Danish biotech company, founded in 1999. Genmab has built an unrivalled antibody engineering technology platform that has allowed it to pioneer new and more effective drugs and become the partner of choice for the development of antibody drugs worldwide. Since 2017 it has brought to market two wholly owned drugs for B-cell lymphoma (one for a blood cancer and one for metastatic cervical cancer), and eight royalty-generating partnered products, including three blockbusters (>\$1bn revenues), one of which, Darzalex is nearing \$10bn in sales. It has achieved scale and profitability while maintaining the focus on innovation and agility that large pharmaceutical companies tend to lack. The combination of science know-how, cornered technology, and scale means that it can count on an above-average success rate for not only getting drugs approved, but also commercialising them. Based on these attractions, we took a new holding for the portfolio.

Complete Sales

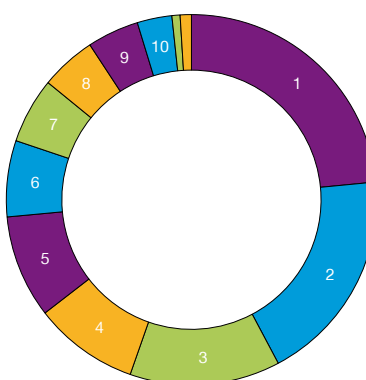
Stock Name	Transaction Rationale
Auto1 Group SE	We sold the holding in German used-car marketplaces business, Auto1. The company has made decent operational progress but we are cognisant that it faces a difficult challenge balancing its push towards profitability while simultaneously growing its direct-to-consumer platform, Autohero. Growing Autohero likely involves spending more on marketing while investing in refurbishment sites but this would come at a cost to the profitability drive. Meanwhile, there is also the prospect of increased competition on the horizon. With these challenges in mind, we decided to sell the position and reinvest in other ideas.
HelloFresh SE Ordinary	We have sold the shares in the meal kit company HelloFresh. This has been a bad investment. We first invested for clients in 2021 and we believed that consumers' behaviours surrounding grocery shopping and mealtimes were shifting and that HelloFresh was removing friction in this process. We felt it had the potential to become an important part of households' weekly spending, particularly as it expanded the offering by including different diets, more meal types and variations of meal kits. We recognised this was a hard business, but HelloFresh had proven successful in outcompeting peers, achieving leading market shares and producing decent economics which could improve in time. However, after suffering a material hangover from the covid period, this has not come to pass. The company recently issued second profit warning in as many quarters and it has become clear to us that the core meal kits business is in decline and that the growth of its more nascent ready-to-eat offering, Factor, would not be enough to offset this in the near term. With concerns over execution, communication, and the core business itself, we decided to exit.
Hemnet Group AB	We have sold the position in Sweden's dominant residential property platform, Hemnet. The stock has performed very strongly in the past few years as Hemnet exploits its latent pricing power and monetisation opportunities. Hemnet could potentially exploit further monetisation opportunities but it trades at a multiple which, we believe, make it unlikely that it could achieve a further doubling in value at this time. For this reason, we decided to take profit and sell the position completely.
Zalando SE	Zalando has been a poor investment. Europe largest online fashion marketplace, it performed well in both share price and operational terms through covid, experiencing strong growth in both users and revenues. Since then, growth has been much more muted and we have noted that its model of offering the broadest possible selection for customers has not been enough to stop customers beginning their online buying journey via a search engine or by going direct to their brand of choice. Meanwhile, Zalando's ancillary services for brands, such as in marketing and fulfilment, have failed to make the impact on profitability that we had hoped for. As a result, we decided to sell the holding and invest in other ideas.

Sector Exposure



		%
1	Industrials	29.3
2	Consumer Discretionary	19.7
3	Financials	16.6
4	Information Technology	15.2
5	Health Care	10.5
6	Communication Services	7.1
7	Consumer Staples	0.6
8	Cash	1.0

Geographic Exposure



		%
1	Netherlands	23.5
2	Sweden	18.8
3	France	13.1
4	Switzerland	9.2
5	Ireland	9.0
6	Germany	6.7
7	Norway	5.7
8	Italy	4.9
9	Denmark	4.5
10	Poland	3.0
11	Others	0.7
12	Cash	1.0

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
Ryanair	European low-cost airline	5.4
Topicus.com	Acquirer of vertical market software companies	5.2
ASML	Semiconductor equipment manufacturer	4.9
Schibsted	Media and classifieds advertising platforms	4.9
Prosus	Portfolio of online consumer companies including Tencent	4.2
Atlas Copco	Manufacturer of industrial compressors	3.9
Kingspan Group	Building materials provider	3.6
IMCD	Speciality chemicals distributor	3.4
Hypoport	provides technology-based financial products and services	3.3
Avanza Bank	Online investment platform	3.2
Total		41.8

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	2	Companies	1	Companies	None
Resolutions	40	Resolutions	4	Resolutions	None

Financial Conduct Authority (FCA) has published its Sustainability Disclosures Regulation (SDR) at the end of 2023 which will apply to UK based investment funds and includes a new fund labelling framework and anti-greenwashing rule

Our engagement activities over the quarter included discussions with board chairs about succession planning and discussions on supply chain management

We continue to engage regularly with companies, focusing on matters material to the investment case and company

Company Engagement

Engagement Type	Company
Environmental	Adyen N.V., Eurofins Scientific SE, Kering SA, Kingspan Group plc, Mettler-Toledo International Inc., Nexans S.A.
Social	DSV A/S, Kering SA
Governance	ASML Holding N.V., Compagnie Financière Richemont SA, DSV A/S, Eurofins Scientific SE, Evotec SE, Genmab A/S, Kering SA, Mettler-Toledo International Inc., Nexans S.A., Sartorius Stedim Biotech S.A., adidas AG
Strategy	Mettler-Toledo International 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 %
Ryanair	5.4
Topicus.com	5.2
ASML	4.9
Schibsted	4.9
Prosus	4.2
Atlas Copco	3.9
Kingspan Group	3.6
IMCD	3.4
Hypoport	3.3
Avanza Bank	3.2
Adyen	3.1
Nexans	3.1
Allegro.eu	3.0
Richemont	3.0
DSV	2.9
Sartorius Stedim Biotech	2.8
Exor N.V.	2.7
Moncler	2.5
Lonza	2.4
Reply	2.3
Kering	2.3
Spotify	2.2
LVMH	2.2
EQT Partners	2.0
Dassault Systemes	1.9
Beijer, G & L AB	1.7
Kinnevik	1.5
Wizz Air	1.5
Epiroc	1.5
Assa Abloy	1.5
adidas	1.4
Mettler-Toledo	1.3
Delivery Hero	1.2
Genmab	1.0
CRISPR Therapeutics	1.0
Soitec	0.9
AutoStore	0.9
Evotec	0.8
Eurofins	0.7
VNV Global	0.6
Camurus	0.6
Royal Unibrew	0.6
Cash	1.0
Total	100.0

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Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Acc	06 January 2000	GB0006058258	0605825	0.55	0.59
Class B-Inc	17 June 1985	GB0006057391	0605739	0.55	0.59

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

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