

Baillie Gifford Health Innovation 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 aims to produce capital growth over the long term. The investment policy is to invest mainly in global equities selected from companies involved in the healthcare industry and which are innovative in their focus. The Fund will not be restricted to equity securities in the healthcare sector as defined by any particular index. Investment will be concentrated by the number of stocks held but diversified across a range of healthcare themes.

Fund Facts

Fund Launch Date	15 December 2020
Fund Size	£25.8m
IA Sector	Healthcare
Active Share	91%*
Current Annual Turnover	27%
Current number of stocks	39
Stocks (guideline range)	25-50

*Relative to MSCI ACWI Health Care Index from 31 August 2024, previously MSCI ACWI Index. Source: Baillie Gifford & Co, MSCI.

Health Innovation Team

Name	Years' Experience
Julia Angeles*	16
Marina Record	16
Rose Nguyen	11

*Partner

Fund Objective

To outperform (after deduction of costs) the MSCI ACWI Health Care Index, as stated in sterling, by at least 2.5% 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 Healthcare 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.)	Since Inception (p.a.) †
Class B-Acc (%)	-2.1	-1.6	-19.1	-13.7
Index (%)*	-4.3	14.6	7.0	9.0
Target (%)**	-3.7	17.5	9.7	11.7
Sector Average (%)***	-1.1	9.4	0.8	3.1

Source: FE, Revolution. 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.

†15/12/2020

*MSCI ACWI Health Care Index from 31 August 2024, previously MSCI ACWI Index (in sterling).

**MSCI ACWI Health Care Index (in sterling) plus at least 2.5% per annum over rolling five-year periods from 31 August 2024; previously MSCI ACWI Index (in sterling) plus at least 2.5% per annum over five-year periods.

***IA Healthcare 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 (%)	n/a	n/a	-32.7	-20.1	-1.6
Index (%)*	n/a	n/a	-3.7	11.0	14.6
Target (%)**	n/a	n/a	-1.3	13.8	17.5
Sector Average (%)***	n/a	n/a	-1.4	-5.0	9.4

Source: FE, Revolution. 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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Market environment

Companies in the portfolio are making operational progress, although we do continue to see stock-level volatility. While the fund delivered a negative absolute return during the quarter, it outperformed the benchmark.

Performance

Exact Sciences, **Doximity** and **Argenx** were among the top contributors to performance during the quarter.

Cancer testing company, **Exact Sciences**, contributed positively after it announced early-stage results for its blood-based colorectal cancer test, which look far superior to the test of its competitor, Guardant Health. If the trial results hold for a larger population, it will allow Exact Sciences to continue to grow into the estimated 60m-strong unscreened patient population in the US. Its minimal residual disease (MRD) test, which is used to check for the remnants of cancer after treatment, could also be launched next year, opening up a new revenue stream for the company.

Doximity, the online networking platform for doctors, also contributed positively following encouraging results that exceeded market expectations. It reported a 17% increase in revenue compared to the same period last year, reflecting strong demand for its services and an expanding user base.

European biotech **Argenx** was accretive to performance following a strong set of results. Its flagship drug, Vyvgart, which is used to treat generalised myasthenia gravis (a chronic autoimmune disorder that can result in severe weakness of the skeletal muscles), continues to see strong demand. Sales are now at \$478m, an increase of almost 56% over the same period in 2023. **Argenx** believes Vyvgart could eventually treat 42,000 patients globally, a significant increase from the 17,000 originally estimated.

Moderna, **Dexcom**, and **Edwards Lifesciences** were among the largest detractors to performance.

Moderna's stock price declined during the period following weak COVID-19 vaccine sales and a slow RSV vaccine launch. The company has since announced that it will lower its R&D spend and focus its pipeline, while pushing out profitability until 2027. We met with the CEO, Stephane Bancel, in our Edinburgh office in September to discuss the commercial missteps in more detail and will continue to engage with the company. Regardless of how exciting its technology platform is, its commercial engine must function well to achieve its potential. We are eager to see clear signs of an improvement.

Dexcom, a manufacturer of continuous glucose monitoring devices, weighed on performance following an unexpected downgrade to full-year revenue expectations and disappointing results. Management highlighted that the recent restructuring of its sales force negatively impacted customer growth, and this was further compounded by losing market share in one of its channels. This is clearly disappointing, but on balance, penetration of **Dexcom's** devices in diabetics is still low, and we remain optimistic about the potential of its new over-the-counter Stelo product.

Edwards Lifesciences, which provides a range of heart valve implants, also detracted from performance during the period. The company is a world leader in tissue replacement heart valves, such as its transcatheter aortic valve replacement (TAVR) product which can be implanted without the need for open heart surgery. Its recent results showed lower growth for TAVR than anticipated. Management commented that this slower growth could be the result of hospitals under staffing pressure as they scale their structural heart teams to perform the exact type of procedures that **Edwards** also provides implants for. We believe the market reaction is overdone and continue to have conviction in the opportunity for **Edwards** from here, not least as it is due to report pivotal data at the end of the year which will look to expand TAVR into asymptomatic severe aortic stenosis.

Stewardship

We met with the new CFO of **Ambu**, Henrik Skak Bender, who joined the company six months ago, to learn about the recent evolution of the leadership team. Since Meelby Jensen stepped into the CEO role in 2022, the company has undergone a significant restructuring, by sharpening its strategy and increasing efficiencies. The conversation with the CFO was encouraging, and highlighted **Ambu's** progress in a number of areas, including growth in its single-use endoscopy business, a recovery in margins, and substantial progress in its pipeline, including regulatory approvals for the next-generation duodenoscope (used in the small intestine) and gastroscope.

Notable transactions

After extensive research, our conviction in **Novo Nordisk**, the obesity drug developer, has increased to a level to take a holding. We believe the obesity market has the potential to be a \$350bn opportunity over the next 10 years, with **Novo Nordisk** set to take a sizeable share. The insatiable demand in the self-pay market for **Novo Nordisk's** drugs is unprecedented in the history of chronic diseases and is set to continue. We believe its strong clinical evidence and manufacturing capacity will result in a growing stream of cash flows that it can use to advance its obesity pipeline, which is already the strongest in the industry. This includes

developing drugs with improved efficacy, those that can be taken orally or with new mechanisms of action.

We sold Sage Therapeutics after a series of clinical setbacks limited its addressable market and reduced its chance of success. The initial investment case was that the novel mechanisms of action of Sage's drugs had the potential to transform the treatment of depression and other brain disorders. However, despite the approval of its drug Zurzurvae for postpartum depression, recent trial failures in other areas have lowered our confidence that its novel science could translate into commercial results.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2024

Stock Name	Contribution (%)
Exact Sciences	1.6
argenx	1.4
Doximity	1.3
ResMed	0.8
ALK-Abello	0.8
Alnylam Pharmaceuticals	0.7
Illumina	0.7
BioNTech	0.6
Sartorius Group	0.6
Wuxi Biologics	0.5
Moderna	-3.0
Dexcom	-2.0
Edwards Lifesciences	-1.4
Staar Surgical	-0.5
Ionis Pharmaceuticals	-0.2
Zealand Pharma	-0.2
UnitedHealth	-0.2
Genmab	-0.2
Apple	-0.2
AbbVie	-0.2

One Year to 30 September 2024

Stock Name	Contribution (%)
ALK-Abello	2.6
ShockWave Medical Inc	2.3
Ambu	2.0
Alnylam Pharmaceuticals	1.5
Doximity	1.5
Insulet Corp	0.9
ResMed	0.9
Ascendis Pharma	0.5
Masimo Corp	0.4
Tesla Inc	0.4
Genmab	-3.6
Wuxi Biologics	-3.5
Moderna	-2.7
10X Genomics	-2.2
Dexcom	-2.1
M3	-2.0
NVIDIA	-2.0
Sartorius Group	-1.6
Edwards Lifesciences Corp	-1.1
Exact Sciences	-1.0

Source: Revolution. Baillie Gifford Health Innovation Fund relative to MSCI ACWI Health Care Index from 31 August 2024, previously 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.

Transactions from 01 July 2024 to 30 September 2024.

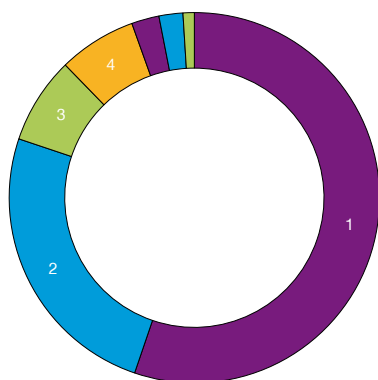
New Purchases

Stock Name	Transaction Rationale
Novo Nordisk	Novo Nordisk is a Danish pharmaceutical company and one of the leaders in metabolic diseases. We took a position as we believe the obesity market has blue sky potential to be a \$350bn opportunity over the next 10 years, with Novo Nordisk set to take a sizeable share. The insatiable demand in the self-pay market for Novo's drugs is unprecedented in the history of chronic diseases and set to continue. Its five-year head start on competitors, strong clinical evidence, and manufacturing capacity will result in a growing stream of cash flows that it can use to advance its obesity pipeline, which is already the strongest in the industry. This includes developing drugs with improved efficacy, those that can be taken orally, or with new mechanisms of action, further expanding the market.
RxSight	RxSight is the US developer of customisable implantable lenses for patients after cataract surgery. Its lenses are unique among competitors in that they can be adjusted through a UV light machine after surgery to ensure perfect vision. With 20 million cataract procedures globally and 7 million in the US alone, we believe RxSight lenses' superior clinical utility can lead it to capture over 50% of the US premium lens market from just over 10% today. Additionally, its lenses are easy to implant and adjust and provide appealing procedure economics for surgeons which can propel its growth. We think the company's valuation leaves significant room for upside due to both the rate and duration of its growth over the next five years.

Complete Sales

Stock Name	Transaction Rationale
Relay Therapeutics	We invested in Relay in 2020 as we felt its cutting edge tools and computational models could provide novel insight into the motion of proteins, leading to the design of safer, more potent drugs. It has made some progress, advancing two programs for specific gene mutations found in a broad range of cancer tumour types. However, this progress has been slower than we had hoped, with the pivoting of one program delaying trial patient recruitment and increasing its capital requirements. A tougher capital-raising environment has narrowed its focus and increases the importance of these lead programs. After visiting the company last month, our conviction in its success has weakened in a highly competitive oncology space and we decided to sell the position.
Sage Therapeutics	We sold Sage Therapeutics after a series of clinical setbacks limited its addressable market and reduced its chance of success. The initial investment case was that the novel mechanisms of action of Sage's drugs had the potential to transform the treatment of depression and other brain disorders. However, despite the approval of their drug Zurzurvae for postpartum depression, trial failures in major depressive disorder, neurological tremors, and Parkinson's disease lowered our confidence that their novel science could translate into commercial results, especially considering the lack of objective biomarkers in these disorders.

Geographic Exposure



	%
1 United States	55.2
2 Denmark	24.9
3 Netherlands	7.6
4 Germany	6.8
5 China	2.4
6 Others	2.1
7 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
argenx	Antibody based drug development	7.6
Alnylam Pharmaceuticals	Drug developer focussed on harnessing gene silencing technology	7.1
ALK-Abello	Health care	5.6
Ambu	Danish developer, producer and marketer of life saving equipment	5.1
Genmab	Antibody based drug development	4.4
Insulet Corporation	Medical device company	4.2
Exact Sciences	Non-invasive molecular tests for early cancer detection	4.1
ResMed	Develops and manufactures medical equipment	3.9
Moderna	Biotechnology developing mRNA-based therapeutics	3.7
Doximity	Online healthcare resource and interactive platform developer	3.6
Total		49.2

Voting Activity

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

Company Engagement

Engagement Type	Company
Environmental	Twist Bioscience Corporation
Social	DexCom, Inc.
Governance	BioNTech SE, DexCom, Inc., Exscientia plc, Health Catalyst, Inc., Illumina, Inc., M3, Inc., Moderna, Inc., Recursion Pharmaceuticals, Inc., Sartorius Aktiengesellschaft, Twist Bioscience Corporation
Strategy	DexCom, Inc., Illumina, Inc., Moderna, Inc., Sartorius Aktiengesellschaft

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 %
argenx	7.6
Alnylam Pharmaceuticals	7.1
ALK-Abello	5.6
Ambu	5.1
Genmab	4.4
Insulet Corporation	4.2
Exact Sciences	4.1
ResMed	3.9
Moderna	3.7
Doximity	3.6
Sartorius Group	3.6
Illumina	3.6
Novo Nordisk	3.4
Edwards Lifesciences	3.3
Ascendis Pharma	3.3
Veeva Systems	3.3
Zealand Pharma	3.1
Vertex Pharmaceuticals	2.9
Dexcom	2.8
Denali Therapeutics	2.3
BioNTech	1.9
WuXi Biologics	1.7
Ionis Pharmaceuticals	1.6
STAAR Surgical	1.6
Twist Bioscience	1.5
SCHOTT Pharma	1.3
M3	1.2
Inspire Medical Systems	1.2
Health Catalyst	1.0
RxSight, Inc	1.0
10x Genomics	0.9
Exscientia plc	0.8
Recursion Pharmaceuticals	0.7
Zai Lab	0.7
Alector	0.4
Lyell Immunopharma	0.2
Vir Biotechnology	0.2
Sana Biotechnology	0.2
Abiomed CVR Line	0.0
Cash	1.0
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	15 December 2020	GB00BMVLY038	BMVLY03	0.50	0.56
Class B-Inc	15 December 2020	GB00BMVLY145	BMVLY14	0.50	0.56

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 September 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