Baillie Gifford

Global Alpha Quarterly Update

30 September 2024

This document is solely for the use of professional investors and should not be relied upon by any other person. It is not intended for use by retail clients.

Important Information and Risk Factors

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited is authorised and regulated by the Financial Conduct Authority.

Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 licence from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong, Telephone +852 3756 5700.

Baillie Gifford Investment Management (Europe) Ltd (BGE) is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. BGE also has regulatory permissions to perform Individual Portfolio Management activities. BGE provides investment management and advisory services to European (excluding UK) segregated clients. BGE has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. BGE is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

Persons resident or domiciled outwith the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

This document contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned.

All information is based on a representative portfolio, new client portfolios may not mirror the representative portfolio exactly. As at September 30, 2024, in US dollars and sourced from Baillie Gifford & Co unless otherwise stated.

South Africa

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

North America

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

Japan

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

South Korea

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-Discretionary Investment Adviser.

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 bailliegifford.com

Ref: 125019

Australia

Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a "wholesale client" within the meaning of section 761G of the Corporations Act 2001 (Cth) ("Corporations Act"). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this document be made available to a "retail client" within the meaning of section 761G of the Corporations Act. This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

Israel

Baillie Gifford Overseas is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This document is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

Singapore

Baillie Gifford Asia (Singapore) Private Limited is wholly owned by Baillie Gifford Overseas Limited and is regulated by the Monetary Authority of Singapore as a holder of a capital markets services licence to conduct fund management activities for institutional investors and accredited investors in Singapore. Baillie Gifford Overseas Limited, as a foreign related corporation of Baillie Gifford Asia (Singapore) Private Limited, has entered into a cross-border business arrangement with Baillie Gifford Asia (Singapore) Private Limited, and shall be relying upon the exemption under regulation 4 of the Securities and Futures (Exemption for Cross-Border Arrangements) (Foreign Related Corporations) Regulations 2021 which enables both Baillie Gifford Overseas Limited and Baillie Gifford Asia (Singapore) Private Limited to market the full range of segregated mandate services to institutional investors and accredited investors in Singapore. The information contained in this presentation is meant purely for informational purposes and should not be relied upon as financial advice.

Past Performance

Past performance is not a guide to future returns. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio. Material market or economic conditions will have an impact on investment results. The returns presented in this document are gross of fees unless otherwise stated and reflect the reinvestment of dividends and interest.
Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction costs and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results.
It should not be assumed that recommendations/ transactions made in the future will be profitable or will equal performance of the securities mentioned.

Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

Any stock examples, or images, used in this paper are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style. A full list of portfolio holdings is available on request.

The commentary relates to the above mentioned strategy and not all stocks mentioned may be held in the portfolio.

Financial Intermediaries

This document is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

Product Overview

Global Alpha is a long-term, diversified, global equity strategy selecting growth stocks on a bottom up basis with a focus on fundamental analysis. The strategy combines the specialised knowledge of Baillie Gifford's investment teams with the experience of some of our most senior investors.

Risk Analysis

Key Statistics	
Number of Holdings	88
Typical Number of Holdings	70-120
Active Share	81%*
Rolling One Year Turnover	23%

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

Our patient approach to investing and focus on business fundamentals positions the Global Alpha portfolio well to deliver long-term outperformance

We search widely for unrecognised growth and are finding it in an eclectic range of companies

The diversified portfolio is positioned to benefit from broadening equity market returns

Baillie Gifford Key Facts

Assets under management and advice	US$293.0bn
Number of clients	633
Number of employees	1708
Number of investment professionals	376

Not far from New York's La Guardia airport, looking out over the East River, stands a factory that breathes with the earthy scent of sawdust. The air thrums with the rhythmic hum of hand tools, punctuated by the staccato hammering of wooden dowels and the metallic clang of clamps. This is a symphony of industry. Here, a machine of hammers, levers, and springs takes form – a Steinway concert grand piano. Building a concert grand is a meticulous 11-month journey of shaping, painting, polishing, tuning, and inspecting. However, crafting a Steinway begins many years before on an archipelago just off the northern Pacific coast of Canada known as Haida Gwaii.

This area is home to ancient coastal forests in which grow some of the world's largest and longest-lived trees. The towering Sitka spruce reaches skyward to heights of up to 100 metres, forming a cathedral-like canopy that intensifies the call of the marbled murrelet and the drumming of woodpeckers. These trees will form one of the most vital components of a Steinway concert grand – the soundboard. The soundboard amplifies the vibrations of the strings, generating the rich, full sound for which grand pianos are renowned. Only a tiny percentage of Sitka spruce trees will yield timber of soundboard quality. So, what does Steinway look for when selecting trees to produce this component? The answer is simple. The best soundboards are crafted from trees with evenly-spaced growth rings – the result of the tree growing consistently year after year.

Growth matters

Like the Sitka spruce, the portfolio contains companies carefully chosen for their exceptional growth characteristics. At the steadier end of the growth spectrum is US health insurer **Elevance Health**. Held since the strategy's inception, Elevance is one of the strongest contributors to returns to date. The company is transforming from being a traditional health insurance company to a diversified healthcare services organisation. Through both organic growth and strategic acquisitions, it is making significant progress in its higher-margin Carelon business, which provides a broad range of health services that help people to manage complex chronic health conditions, refill prescriptions, access mental health support services, and much more. Over the last two decades, it has compounded its earnings 12 per cent per annum and, even throughout the volatility of the last five years, its shares have continued their steady upward progress. We have seen similarly strong track records achieved by other holdings, including ratings agency **Moody's**, social media company **Meta**, and global payments technology company **Mastercard**. What is exciting is that not only do these companies have exceptional track records, but we believe they still have long growth runways ahead.

The growth achieved by these and many other companies supports our fundamental belief that share prices will follow earnings growth over the long term. From the strategy's inception in May 2005 until the end of 2021, we delivered an average relative return of +2.2 per cent (in USD) per year. Earnings growth underpinned this. Over its lifetime, the Global Alpha strategy has delivered an earnings growth rate of 11.2 per cent, far exceeding the 7.7 per cent achieved by the MSCI All Country World Index. This superior earnings growth translated into outperformance. Even over the last five years – during which time we have experienced periods of much weaker performance – a representative Global Alpha portfolio has delivered earnings growth of 12 per cent per annum, compared to the 7 per cent delivered by the benchmark index.

The portfolio is made up of around 90 high-quality companies from right across the growth spectrum. This diversity of growth opportunities is reflected in our three growth profiles. It is not just the consistent and enduring growth delivered by Compounder holdings such as those cited above that has contributed to this long-term track record. Looking at the holdings that have delivered the highest returns since inception, the top ten is populated by names from across the three profiles. Among the top ten are Disruptor holdings that are redefining entire industries, including ecommerce giant **Amazon**, electric vehicle manufacturer Tesla (sold in April 2024) and global leader in accelerated computing and artificial intelligence, **NVIDIA**. Capital Allocator holdings, which tend to be more exposed to economic, industry or product cycles, also feature, including the world's leading semiconductor foundry **TSMC** and global engineering group **Atlas Copco**.

Patience matters

The most essential ingredient for the compounding of investment returns to take place is time. But growth investing demands not just time but patience. As long-term investors, we understand that on the journey to becoming tomorrow's winners, companies will encounter bumps in the road. Our role is to carefully monitor progress against the investment case for each holding but also to provide the space and support companies need to reach their potential. In recent months, numerous examples of this patient approach have been rewarded from right across the portfolio.

Demonstrating patience can be particularly important for earlier-stage growth companies where the range of outcomes is wider but the potential rewards much greater. **Alnylam Pharmaceuticals** is a biotechnology company specialising in gene-silencing technology called RNA interference (RNAi). RNAi "turns off" faulty genes, treating diseases caused by the harmful proteins these mutated genes produce. When we first invested in 2015, Alnylam was an early-stage biotech with no drugs on the market. Today, it has five approved RNAi drugs. But it hasn't always been an easy ride. Earlier this year, the company announced changes to a pivotal late-stage trial for a drug used to treat a fatal genetic heart disorder. The market reacted badly, worried that the changes indicated a lack of confidence in the initial trial design, and the share price fell. The market appears to view every potential new drug in Alnylam's pipeline as a long shot. However, the trial results were not only positive but validated Alnylam's technology and its potential to treat and prevent a broad range of common diseases with much larger patient populations, such as hypertension and Alzheimer's. Our insight lies in our confidence in the inherent value of Alnylam's platform and its strategic approach to drug development, which has helped the company to achieve an impressive 60 per cent success rate in bringing drugs to market, compared to an industry average of 10-15 per cent.

Another company in the portfolio where patience has mattered is the online pet supplies company **Chewy**. Throughout 2022 and 2023, weaker consumer spending acted as a headwind for the company and it experienced a slowdown in its new customer acquisition rate. Fast forward to this year, and our patience is paying off. The company is reporting increased sales for its Autoship subscription service and higher net sales per active customer. It has also introduced a sponsored advertising programme that allows brands to showcase their products on Chewy.com, supporting gross margin expansion and driving its share price upwards. Chewy is rapidly becoming a one-stop shop for pet owners. We are excited by its potential to leverage strong customer relationships by cross-selling into new (and higher-margin) areas, including pet insurance and vet clinics.

Elsewhere in the portfolio, companies are achieving impressive operational progress that is yet to be reflected in share prices and we are optimistic that our patient approach will soon be rewarded. A prime example is **Royalty Pharma**, which provides capital to biopharmaceutical companies in exchange for a share of the revenue generated by the drugs they produce. In a higher interest rate environment, Royalty Pharma's role as a provider of capital is increasingly important. In this environment, we have seen the number and value of Royalty Pharma's royalty deals accelerating. However, its seven times price-to-earnings ratio belies the company's robust fundamentals and ongoing revenue generation from its diversified drug portfolio. We are reminded that when market conditions are unusual, the unique opportunities it offers may be overlooked by the market. Our conviction in Royalty Pharma's growth potential remains high and we have added to the holding twice since first purchase in 2022.

Diversification matters

A core tenet of our investment philosophy is that growth comes in many forms and from diverse sectors. We also know that a high level of diversification within the portfolio has played a significant role in generating outperformance over the long term. Since we first introduced the growth profile methodology in 2010, the portfolio in aggregate has outperformed over individual months more frequently than any of the individual profiles in isolation. However, diversification has posed challenges in recent months due to unusually high levels of market concentration. Since the recovery in global stock markets that began towards the end of 2022, the portfolio has delivered respectable absolute returns but performance has trailed that of the benchmark index. The narrowness of index gains – dominated by the 'Magnificent Seven' – is well-documented and has been one of the drivers of relative underperformance. Although we are enthusiastic about AI's potential to change how we live and work, we remain open-minded about which companies stand to gain from this profound shift.

With the market so narrowly focused, it is an ideal time to be reward-seeking. We search widely for unrecognised growth and are finding it in an eclectic range of companies. Within the broader AI value chain, we have purchased the French materials science company Soitec. Soitec has an essential role in addressing the challenges of digitalisation, electrification and AI across end markets including smartphones and data centres. It supplies the semiconductor industry with engineered substrate wafers, which enhance chips and ensure more reliable connectivity, lower power consumption and better performance for the devices that contain them. The company's proprietary technology lends it a strong position in a fast-growing niche. This, and its attractive valuation in light of expected future returns, form a compelling investment case.

Builders FirstSource operates in a different sphere from the high-tech world of AI, yet its potential for growth is no less transformative. This new holding is the largest supplier and manufacturer of building materials, components, and services for professional homebuilders in the US. It is a leader in one of the world's largest residential property markets, which is facing a shortage of affordable housing. Builders FirstSource is helping to address this challenge, as its products make constructing new homes faster and more efficient. With low penetration in a vast addressable market, we have conviction in the company's potential for significant expansion through both organic growth and strategic acquisitions.

From chips to construction to coffee, we have also invested in the US drive-through coffee chain Dutch Bros. The market does not appear to appreciate the scale of the store roll-out opportunity over the next decade or the enduring nature of the shift towards the newer and different caffeinated drinks it offers its customers. Also within the Disruptors profile, we have added to several names where conviction in their outlier potential is increasing. These include The Trade Desk (advertising technology), Adyen (payments technology provider), and DoorDash (food delivery). Despite the uncertain macroeconomic environment, all three are growing healthily and executing strongly.

Outlook

While construction methods have been honed over decades, the process of building a Steinway has remained essentially unchanged since the first concert grands of the 1890s. Similarly, Global Alpha's core philosophy of identifying and investing in a broad range of exceptional growth companies has remained constant since the strategy's inception in 2005. At the same time, however, we remain committed to strengthening and fine-tuning our process, incorporating lessons learned over what has been a challenging few years. This fine-tuning has resulted in a diverse portfolio populated by an eclectic mix of growth businesses that have proven to be immensely adaptable in the face of change and uncertainty. We have great faith in the strength of the portfolio's foundations. For a representative portfolio, the vast majority of holdings (around 98%) are profitable or free cashflow positive and the portfolio overall is much less reliant on debt funding than the broader market, with net debt-to-equity at around 20% compared to 50% for the index.

Meanwhile, the portfolio is exposed to an even wider range of powerful, long-term trends that will support future growth. These underpinnings – alongside our patient approach to investing and focus on business fundamentals – position the Global Alpha portfolio well to deliver long-term outperformance. The three-year earnings growth forecast for the portfolio in aggregate remains ahead of that of the index and, looking ahead, we see encouraging signs of a broadening market environment. We believe the benefits of a diversified portfolio will become even more apparent as a wider range of high-quality growth companies are likely to be recognised and rewarded by the market. The portfolio is in tune. The stage is set.

Performance Objective

+2% to 3% p.a. over rolling 5 year periods vs index.
The performance objective is aspirational and is not guaranteed. We don't use it to compile the portfolio and returns will vary. A single performance objective may not be appropriate across all vehicles and jurisdictions. We may not meet our investment objectives if, for example, our growth investment style is out of favour, or we misjudge the long-term earnings growth of our holdings.

Periodic Performance

GBP	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	0.0	0.6	-0.6
1 Year	18.6	20.4	-1.8
3 Years	-0.7	8.8	-9.4
5 Years	8.1	10.8	-2.7
10 Years	11.7	12.0	-0.4
Since Inception	10.8	10.1	0.7

USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	6.1	6.7	-0.6
1 Year	30.4	32.3	-2.0
3 Years	-0.8	8.6	-9.4
5 Years	9.9	12.7	-2.8
10 Years	9.6	9.9	-0.4
Since Inception	9.1	8.4	0.7

EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	1.9	2.5	-0.6
1 Year	23.7	25.6	-1.9
3 Years	0.4	10.0	-9.6
5 Years	9.4	12.2	-2.8
10 Years	11.0	11.3	-0.4
Since Inception	9.6	9.0	0.7

CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	4.7	5.4	-0.6
1 Year	30.3	32.2	-2.0
3 Years	1.3	11.0	-9.6
5 Years	10.4	13.2	-2.8
10 Years	11.7	12.0	-0.4
Since Inception	9.5	8.8	0.7

AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	2.1	2.7	-0.6
1 Year	21.3	23.1	-1.8
3 Years	0.5	10.1	-9.6
5 Years	9.3	12.1	-2.8
10 Years	12.2	12.5	-0.4
Since Inception	9.6	8.9	0.7

Annualised periods ended 30 September 2024. 3 Month & 1 Year figures are not annualised.
Inception date: 31 May 2005
Figures may not sum due to rounding.
Benchmark is MSCI ACWI Index (MSCI World Index prior to 31 March 2008).
Source: Revolution, MSCI.
The Global Alpha composite is more concentrated than the MSCI ACWI Index.

Discrete Performance

GBP	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
Composite Net (%)	24.9	20.4	-21.8	5.6	18.6
Benchmark (%)	5.8	22.7	-3.7	11.0	20.4

USD	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
Composite Net (%)	31.1	25.6	-35.2	15.5	30.4
Benchmark (%)	11.0	28.0	-20.3	21.4	32.3

EUR	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
Composite Net (%)	21.9	27.1	-23.4	6.9	23.7
Benchmark (%)	3.2	29.5	-5.7	12.3	25.6

CAD	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
Composite Net (%)	32.2	19.1	-29.7	13.6	30.3
Benchmark (%)	12.0	21.4	-13.5	19.5	32.2

AUD	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
Composite Net (%)	23.3	24.6	-27.2	15.1	21.3
Benchmark (%)	4.4	27.0	-10.4	21.0	23.1

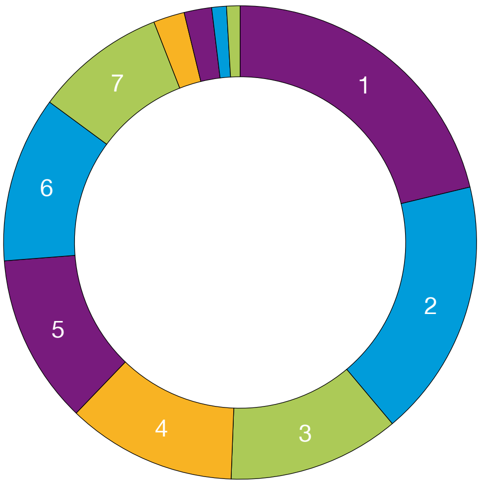
Benchmark is MSCI ACWI Index (MSCI World Index prior to 31 March 2008).
Source: Revolution, MSCI.
The Global Alpha composite is more concentrated than the MSCI ACWI Index.

Top Ten Largest Holdings

Stock Name	Description of Business	% of Portfolio
Microsoft	Technology company offering software, hardware and cloud services	4.1
Meta Platforms	Social media and advertising platform	3.9
Amazon.com	E-commerce, computing infrastructure, streaming and more	3.6
Elevance Health Inc.	US health insurer	3.2
NVIDIA	Designer of Graphics Processing Units and accelerated computing technology	3.1
Martin Marietta Materials	Cement and aggregates manufacturer	3.0
CRH	Building materials supplier	2.9
Prosus	Portfolio of online consumer companies including Tencent	2.7
TSMC	Semiconductor manufacturer	2.6
Ryanair	European low-cost airline	2.3
Total		31.4

Figures may not sum due to rounding.

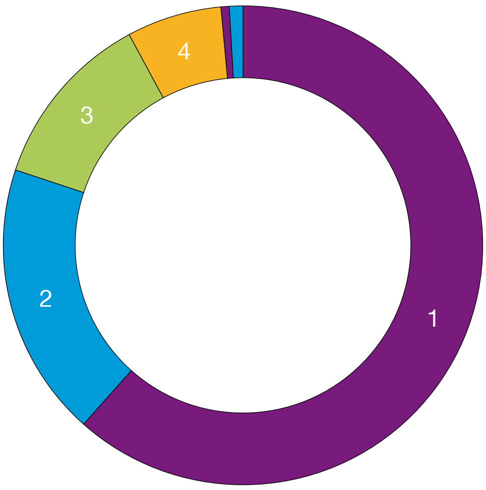
Sector Weights



		%
1	Consumer Discretionary	21.2
2	Information Technology	17.6
3	Health Care	11.7
4	Communication Services	11.6
5	Financials	11.6
6	Industrials	11.3
7	Materials	9.0
8	Energy	2.1
9	Real Estate	1.9
10	Consumer Staples	1.0
11	Cash	0.9

Figures may not sum due to rounding.

Regional Weights



		%
1	North America	61.6
2	Europe (ex UK)	18.5
3	Emerging Markets	12.0
4	Developed Asia Pacific	6.4
5	UK	0.6
6	Cash	0.9

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	9	Companies	4	Companies	1
Resolutions	111	Resolutions	8	Resolutions	1

Company Engagement

Engagement Type	Company
Environmental	BHP Group Limited, Chewy, Inc., Contemporary Amperex Technology Co., Limited, Coupang, Inc., Li Auto Inc., Markel Group Inc., Petroleo Brasileiro S.A. - Petrobras, Ryanair Holdings plc
Social	BHP Group Limited, Contemporary Amperex Technology Co., Limited, MercadoLibre, Inc.
Governance	Advanced Drainage Systems, Inc., Alphabet Inc., Bellway p.l.c., Block, Inc., CBRE Group, Inc., Chewy, Inc., Comfort Systems USA, Inc., Compagnie Financière Richemont SA, Elevance Health, Inc., LVMH Moët Hennessy - Louis Vuitton, Societe Europeenne, Markel Group Inc., Mastercard Incorporated, Meta Platforms, Inc., Moderna, Inc., Moody's Corporation, NVIDIA Corporation, Olympus Corporation, Petroleo Brasileiro S.A. - Petrobras, Prosus N.V., Ryanair Holdings plc, Shiseido Company, Limited, Soitec SA, The Walt Disney Company
Strategy	Block, Inc., Datadog, Inc., Epiroc AB (publ), MercadoLibre, Inc., Moderna, Inc., Olympus Corporation, Ryanair Holdings plc

Company	Engagement Report
Block	Objective: We had a one-to-one video call with Jack Dorsey, chief executive officer of fintech company Block, in August 2024. We wanted to explore further the transformative plans Dorsey has initiated at the company. The conversation aimed to assess how Dorsey's leadership and Block's organisational restructuring could enhance Block's agility and long-term profitability. Discussion: Jack Dorsey is orchestrating a pivotal transformation at Block, aiming to challenge industry titans by synergising its merchant and consumer services. The establishment of a centralised sales function under Nick Molnar is a notable shift, which aims to infuse Afterpay's high-performance sales culture into Block. This strategic move is anticipated to bolster customer retention and acquisition, particularly for its financial services platform, Square, as it scales. The organisational restructuring extends to a functional model across engineering and design, driven by the vision of integrating Square and Cash App to unlock significant value. Dorsey's commitment to leveraging AI and proprietary tools could also sharpen Block's competitive edge. Despite a cautious stance on the long-term impact of large language models (LLMs), Dorsey is optimistic about the potential of AI, especially federated learning, to democratise the tech landscape. The discussion also highlighted Cash App's initiatives to enhance direct deposit penetration, a critical component of Block's growth strategy. The overall business performance and strategic shifts indicate a promising trajectory for Block, potentially ahead of where our current Forward Looking Hypothesis suggests. Outcome: The engagement with Jack Dorsey offered insights into Block's strategic direction and operational enhancements. The dialogue underscored the potential of Block's organisational changes and technological investments to elevate its market position and profitability.
CATL	Objective: To follow up and learn the company's stance on US lawmakers urging the addition of CATL to the import ban list this June, and to understand its implications on the Ford partnership in the US. We also took the opportunity to gain a greater understanding of the impact of lithium resources on CATL's business operations. Discussion: The board secretary and IR confirmed there was no additional update after CATL's public response to the allegations a few months ago. The company reiterated its position that there is no connection to forced labour or any violations of US law and regulations. It labelled some of the accusations as "wrong and misguided." CATL confirmed that its partnership with Ford in the US remains unaffected by these allegations. The discussion also touched on the dynamics of lithium supply and demand. CATL expressed confidence in the long-term demand for lithium and emphasised its strategic positioning to capitalise on this demand. The company's ownership of mines in strategic locations across China, Indonesia and South America, along with its active pursuit of high-quality assets globally, underscores its commitment to securing a stable lithium supply chain. Outcome: This situation underscores the complexities businesses face when navigating geopolitical tensions, especially in sectors such as electric vehicles and battery manufacturing, where supply chains are global and subject to regulatory scrutiny. Despite these challenges, the ongoing partnership between CATL and Ford suggests a strong business relationship and confidence in the ability to comply with US regulations.

Company	Engagement Report
Coupang	Objective: To encourage Coupang to report scope 1 and 2 emissions to better understand its climate exposure and material risks. Discussion: Climate considerations are crucial to Coupang's success for two main reasons: urban pollution and regulatory compliance. Coupang operates in densely populated areas of Korea, with 70 per cent of the population living within seven miles of a fulfilment centre. Seoul, known for its narrow streets and high vehicle usage, ranks among the worst cities globally for air pollution. Additionally, as a company listed in the US, Coupang must adhere to the latest SEC requirements to disclose scope 1 and 2 emissions. Currently, the company prioritises recycling and green packaging over emissions disclosure. We recommended that Coupang begin disclosing its scope 1 and 2 emissions, though we advised against setting targets until the company has a clearer understanding of its carbon footprint. Furthermore, we offered the support of our Climate Team and agreed to provide examples of companies in similar sectors that we admire. Outcome: Following our meeting, the company indicated it is evaluating internally whether to include its scope 1 and 2 emissions in its forthcoming ESG report. We look forward to studying the report once published.
Datadog	Objective: To understand how co-founder and chief executive officer Olivier Pomel envisions artificial intelligence (AI) may impact Datadog's business. Discussion: Pomel believes that AI is accelerating the move from on-premise software to the cloud while increasing the complexity of cloud-based software. In his view, Datadog should benefit as companies will have a greater need to observe and monitor more complex cloud-based infrastructure and software. We explored with Pomel whether AI is shifting the value from writing code, which can be increasingly automated, to understanding, running, and securing code areas where Datadog's business model seems well-positioned. We also considered whether AI could automate observability, potentially disrupting the core of Datadog's business model. However, there is currently no evidence from potential competitors that this is feasible, highlighting the complexity of the task. Meanwhile, Datadog is leveraging AI to enhance its product offerings, primarily by utilising its own observability data. This approach may further strengthen its competitive advantage. Outcome: This was a thought-provoking conversation about the long-term vision for Datadog's business. Could software development become as much about observing and analysing AI models as it is about writing software? If so, is Datadog's long-term growth potential correlated closely with the advancement of AI? We will continue to monitor and reflect on such questions in the context of our long-term investment thesis.

Company	Engagement Report
Olympus	Objective: We were invited to present to Olympus' management and board of directors. The purpose was to share our expectations for Olympus, focusing on long-term growth prospects and addressing potential risks. This session included a presentation followed by a Q&A, aiming to provide Olympus with insights from an investor's perspective. Discussion: The discussion covered 3 key areas. First, we shared our long-term growth expectations for the company, providing a description of how we anticipate that by focusing on operational efficiencies and market expansion, Olympus can elevate its operating margins significantly. Given the starting valuation, achieving these expectations should result in attractive returns for our clients and outperformance in both Japanese and global markets. Second, we shared some short-term goals that we believe could help Olympus achieve these long-term goals. These included focusing on resolving any final quality assurance concerns raised by the FDA and focusing on market share expansion. Third, we stressed the importance of balancing profitability targets with the need to reinvest in research and development and business development to safeguard the long-term health of the business. Lastly, we reflected on our experience holding Olympus shares on behalf of clients over the long term. We shared that we are supportive of efforts to enhance production efficiency, improve quality, and simplify the business to avoid unforced errors and execute on the large opportunity set. Outcome: The meeting was valuable for articulating our long-term expectations for Olympus. It underscored the importance of being a long-term, supportive shareholder and provided a constructive step towards enabling Olympus's global competitiveness. The meeting established key milestones for assessing progress in subsequent discussions with senior management.
Petrobras	Objective: To better understand how Petrobras' operational emissions reductions and governance controls are being implemented and to continue to encourage further progress. Discussion: We met with Petrobras' head of governance and head of climate in Brazil, followed by a meeting with the chief financial officer (CFO) in London. Petrobras has environmental targets, including greenhouse gas emissions associated with oil and gas production. However, over the years, we have encouraged the company to be more ambitious. The company highlighted that its reservoirs have enabled low-cost and lower carbon barrels, it has also invested in technologies for further emissions reduction. Examples of this would include new floating production, storage, and offloading (FPSO) vessels that have decarbonisation technologies. The company is resolutely focused on efficiency, identifying opportunities to go even further in eliminating flaring and improving energy consumption and supply. Of course, efficiency gains will become incrementally harder, so the company aims to stay abreast with new technology that can enable further improvement. Petrobras has one of the largest carbon capture and storage (CCS) programmes globally in the context of offshore oil and gas production, and this expertise is being extended to onshore CCS hubs. Petrobras has a strong safety record, but we discussed how the company addresses governance and sustainability standards in new markets, where they highlighted new compliance and controls. While the company has embarked on energy transition projects, these remain a small part of its overall business. Management sees its expertise in biofuels and sustainable aviation fuels (SAF), as long-term opportunities for the business, but the CFO reiterated the focus of the company's mission, which is replacing oil reserves through ongoing exploration to underpin long-term production growth at the company. Outcome: The meetings with Petrobras and other experts in Brazil helped us better understand the company's governance and sustainability practices in the local context.

Company	Engagement Report
Ryanair	Objective: This post-AGM visit to the company HQ included meetings with departments across the business. For board engagement, our aim was to better understand the skills of the new board appointees; for the sustainability team we were seeking clarity on decarbonisation planning especially with regards to sustainable aviation fuel (SAF); and for our meeting with the chief operating officer (COO), we wanted to explore supply chain disruption. Discussion: The Chair justified recent board nominees in the context of operational execution. The sustainability team clarified SAF contracts and other measures targeting emissions reductions are embedded in their 2050 NZ plan. The COO introduced Ryanair LABS and discussed some of the supply chain bottlenecks currently facing the company. Outcome: A thorough update on the business across operational, sustainability and supply chain matters. These meetings should help us better calibrate the opportunity in the next few years and boost our confidence that Ryanair has a tangible edge in sustainability versus its LCC peers and long-haul carriers.
Soitec	Objective: To encourage simplification of executive pay plans and the strengthening of minimum ownership requirements for executives. Discussion: We spoke to the chair of the remuneration committee, Delphine Segura Vaylet, following this year's AGM. On the call, we outlined reservations over the complexity of executive pay plans. We also queried the suitability of some non-financial performance metrics included in the latest policy. Delphine explained that the committee adopts a benchmarking approach each year, but acknowledged our concerns. She added that the non-financial metrics discussed would be reviewed by the committee. Finally, we sought to understand the board's thinking on building executive ownership. We noted levels of executive ownership and corresponding requirements are both relatively low. Delphine agreed that this was a topic the board could pay more attention to going forward. Outcome: Delphine appeared open to the feedback provided, intimating that action would be considered by the remuneration committee. She also asked if we could share our updated remuneration principles, which we have committed to doing. We look forward to being consulted on executive pay going forward and will monitor related developments.

Votes Cast in Favour

Companies	Voting Rationale
Advanced Drainage Systems, AeroVironment, Chewy, HDFC Bank, Prosus N.V., Richemont, Schibsted, Schibsted B, Soitec	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Advanced Drainage Systems	Annual 07/18/24	2	We opposed the ratification of the auditor because of the length of tenure. We believe it is best practice for the auditor to be rotated regularly as this works to ensure independent oversight of the company's audit process and internal financial controls.
Chewy	Annual 07/11/24	3	We opposed the executive compensation due to concerns with the structure of the policy which we do not believe are aligned with shareholders' best interests.
Prosus N.V.	AGM 08/21/24	3	We opposed the resolution to approve the remuneration report because of concerns with quantum and misalignment between pay and performance. Our concern also relates to the stretch of targets under the long-term incentive plan, all of which we do not deem to be in the best interest of long-term shareholders.
Prosus N.V.	AGM 08/21/24	8	We opposed the resolution to approve the remuneration policy because of concerns with a special 'moonshot' award for the CEO, in addition to the regular long-term incentive plan. We do not believe that the conditions attached to the award promotes appropriate pay for performance.
Richemont	AGM 09/11/24	10	We opposed the request to authorise other business. We do not believe this is in the best interests of clients who vote by proxy.
Richemont	AGM 09/11/24	5.17	We opposed the election of a non-executive director because of concerns relating to their suitability to chair the audit committee having previously been an employee of the company.
Richemont	AGM 09/11/24	9.3	We opposed the approval of executive variable remuneration due to ongoing concerns with remuneration practices which we do not believe are in the best long-term financial interests of shareholders. Concerns include poor disclosure and a lack of responsiveness to previous shareholder dissent.

Companies	Voting Rationale
Chewy	We opposed the resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
AeroVironment	Annual 09/27/24	1b	We abstained on the election of a director who is also a member of the audit committee due to ongoing concerns that the company's climate reporting is lagging behind its peers.

Votes Withheld

We did not withhold on any resolutions during the period.

New Purchases

Stock Name	Transaction Rationale
Builders FirstSource	Builders FirstSource is the largest supplier of building products, prefabricated components and value-added services to the professional builder space in the US. The company focuses on the single-family new home market, in which it has over ten percent market share in a highly fragmented industry. We expect Builders FirstSource to continue to invest organically to build strength and resilience through value-added products, to consolidate the industry through disciplined M&A, and return excess capital to shareholders through buybacks. We believe the company is still being valued as a commodity (lumber) distributor despite an improving industry structure and higher quality characteristics.
Dutch Bros Inc.	Dutch Bros is a drive-through coffee chain. It offers a differentiated menu, ranging from a standard latte to energy drinks and bubble tea, and is well-positioned to benefit from long-term shifts in caffeine consumption among younger generations. The company has a unique culture which, coupled with its fun, irreverent brand, has resulted in extraordinarily high customer and employee satisfaction. This, in turn, has created a loyal customer following and helps the company to attract and retain talent for longer on average than its competitors. The growth opportunity for Dutch Bros is based on a combination of new store growth and same-store sales growth. We believe the company's long-term goal of reaching over 4000 outlets over the next 10-15 years (from a base of around 900 today) - alongside the potential to improve what are already excellent store-level economics by introducing mobile order & pay and adding more food products to its menu - makes this a compelling investment case. We believe the market does not appreciate the scale of the opportunity or the enduring nature of the shift towards the newer and different types of caffeinated drinks that Dutch Bros offers its customers. A period of weaker share price performance has provided a good opportunity to take an initial holding.
Nexans	Nexans is a French cable manufacturer and installer. Under the stewardship of CEO Christopher Guerin since 2018, the business is increasingly focusing on facilitating the electrification of energy networks around the world. Growth is likely to be driven by the need to replace ageing and increasingly obsolete overground cable networks with high-tech underground alternatives which are more efficient and much safer. Furthermore, Nexans is likely to be a key enabler in the build-out of green infrastructure, particularly the subsea cabling required to connect offshore wind farms to the grid. Barriers to entry are significant. Nexans' metallurgy business has its own furnaces for producing copper wire rods which supports the company's electrification efforts moving forward. In addition, Nexans already has two cable-laying vessels and has invested in a third vessel. It will be equipped with a state-of-the-art logistics and handling system capable of laying four cables simultaneously and is expected to be operational by 2026. We believe this is a business operating in a supply-constrained sector that is likely to experience a material uptick in demand in the years ahead, which leaves us optimistic about its future growth potential.
Norwegian Cruise Line Holdings	Norwegian Cruise Line Holdings is a leading global cruise company. With its fleet of 32 ships, the company offers premium cruise experiences to more than 700 destinations worldwide. Despite facing significant challenges during the pandemic, Norwegian is poised for recovery with plans for strategic expansion in place. This includes the addition of thirteen new ships by 2036, aiming to increase capacity and cater to the growing demand for cruise vacations among its target demographic of affluent Baby Boomers. With additional berths available as new ships enter the fleet, accelerating demand for premium cruises among the company's target demographic, and the opportunity for margin expansion through price increases and cost-saving initiatives, we believe Norwegian is well-positioned for future growth.
Petrobras	Petrobras is a highly profitable, low cost and relatively low carbon energy company focusing on exploration and production of oil and gas in Brazilian offshore fields. It has a unique asset base which we expect will drive 5% production growth over the coming years, with extraction costs continuing to fall. Despite global efforts to reduce reliance on fossil fuels, oil demand is forecast to continue growing until 2035 and will remain an important part of the global energy mix in years following. Furthermore, there is an improving governance picture with more gatekeepers involved in decision-making for new projects and capex spend. On a 6x P/E, we believe the growth opportunity is significantly underappreciated by the market.

Soitec	Soitec's engineered substrates for silicon chip manufacturing provide benefits to the makers of smartphone, automotive and other chips. These deliver more reliable connectivity, lower power consumption and better performance. While more expensive than standard wafers, the cost still comprises a tiny fraction of the overall cost of producing the chip. Penetration is low, with Soitec producing around 4m wafers in an industry that consumes close to 240m per year. The most direct opportunity - primarily in phones and autos - is a serviceable market of between 30m and 40m wafers. Soitec's proprietary technology means it has a strong position in a rapidly growing niche. We believe the stock is attractively priced for a cyclical recovery.

Complete Sales

Stock Name	Transaction Rationale
Adobe Systems	Adobe is a software business with products that help its customers with digital creativity and to develop superior digital experiences. The company's Creative Cloud is a suite of applications spanning photo editing, graphic design and video editing/effects, while the Experience Cloud is used by marketers and merchants to create, personalise and track a company's digital presence. We believe the boom in the adoption of generative artificial intelligence (AI) tools has catalysed a paradigm shift, in which a proliferation of creative AI tools is materially lowering barriers to entry, diminishing the value of design, and enabling competitors to gain ground in Adobe's core and adjacent markets. The changing market landscape poses material challenges to our investment case for Adobe and we have decided to move on from the holding.
Advanced Micro Devices	Advanced Micro Devices (AMD) is a semiconductor company that operates across central processing units (CPUs), graphics processing units (GPUs) and configurable chips. Our investment case was primarily based on AMD continuing to win market share from Intel in CPUs. This has played out to an extent with the share price growing +60% since purchase, and the CPU business has consistently outperformed that of its larger rival. However, looking out longer term, we believe that the pace of share gains could slow. This is primarily due to the decision by Intel to outsource manufacturing to TSMC. As such, this may close the gap that AMD currently has in terms of its technological advantage over Intel. On the GPU side, NVIDIA remains a formidable competitor, with AMD lagging behind in terms of both hardware technology and software ecosystems. We have therefore decided to recycle capital into new ideas for the portfolio.
Certara	We have decided to move on from Certara, a biosimulation software company. The company is comprised of a software and services business that provides healthcare companies with solutions to help develop drugs. The services business has been impacted by a more constrained biopharma funding environment. Our conviction weakened following meetings with management that failed to inspire confidence in the company's strategy and its ability to execute. As a result, we have chosen to move on to fund other more attractive growth opportunities.
HDFC Bank	In July 2023, HDFC Corp merged with HDFC Bank, creating the world's fourth-largest bank by market capitalisation. HDFC provides retail banking, wholesale banking and treasury services and prides itself on its strong customer orientation. Our original investment case for HDFC Corp in 2015 was based on its potential to establish further its leading position in a fast-growing economy where mortgage penetration and financial inclusion remain low by global standards. We viewed the merger with HDFC Bank as a positive move that would bolster future returns and improve margins due to the synergies and operational efficiencies that could be achieved. In the digestion period following the merger, we believed it was achievable for long-run loan growth to return to mid-teens levels and return on equity to climb to pre-merger levels within three years. However, operational progress in this regard has been disappointing, making it more difficult for the company to achieve our growth hurdle. With the share price appreciating around 10% over the last three months, we have taken the opportunity to move on.
Hoshizaki	Japanese company Hoshizaki is a major player in the food service industry, manufacturing and selling commercial kitchen equipment such as refrigerators, freezers, and ice machines. Japan and the US represent the company's two largest and most mature markets and a significant proportion of all sales are made to the restaurant industry. Our investment case for the company was built on the opportunities we saw for Hoshizaki to grow its presence in emerging markets such as China, India and Brazil - countries where the restaurant sector is growing at above-average rates. Within the portfolio, Hoshizaki was a small (circa 0.20%) position. With fierce competition for capital, our decision to move on from Hoshizaki is part of a broader exercise to tidy up the tail of the portfolio that began earlier this year, allowing us to recycle capital into new and more attractive ideas.
Pernod Ricard	We have exited the position in Pernod Ricard, the world's second-largest wine and spirits seller. After a reduction earlier in the year, we have continued to assess the headwinds facing the company. In the US, the post-Covid cycle is taking longer to recover, with destocking trends exacerbated by higher interest rates. In China, continued economic weakness has continued to affect discretionary spending. More broadly, we have been considering the longer-term trends impacting the drinks industry. Changing societal factors such as more health conscious consumers, regulation, and cost, are resulting in less alcohol being consumed annually.

Sands China	Sands China is a casino and hotel operator based in Macau (a Special Administrative Region of China). Our original investment case in 2015 was based on the anti-corruption crackdown by Chinese authorities and the desired transformation of the region from high-end gambling to mass-market gaming and a broader, non-gaming tourism base. Our reasons for exiting the position are twofold. Firstly, operational performance has been weaker than expected following the COVID-19 pandemic. Revenue fell to less than 20% of pre-pandemic levels and has still not recovered and while most hotels have returned to ~95% occupancy levels, re-opening has been hampered by renovation works and closures, and wage costs have inflated. Secondly, we believe that the company is not well-aligned with the Chinese government's long-term aims and ideals and a further tightening of the regulatory environment around gambling is possible. With this in mind, together with the backdrop of weaker discretionary consumption, we no longer believe the probability-adjusted upside to be sufficiently attractive and have sold the position.
SCP Pool Corporation	Cyclical and operational factors have influenced our decision to sell out of the holding in America's largest wholesale distributor of swimming pool supplies, Pool Corp. The outlook for new pool construction is weak. Total revenues are significantly influenced by new pool construction which is not expected to grow over the next few years. This is exacerbated by the fact that volumes of new family homes sold are declining with mortgage payments still around twice what they were pre-pandemic. Finally, the migration trend that was experienced during the pandemic (people moving from frost-belt to sun-belt states) has now tapered off. When considering these headwinds against a forward P/E of 30, we believe this to be too high for the growth outlook, and as such have chosen to focus on higher conviction ideas.
Staar Surgical	US-based STAAR Surgical designs, develops and manufactures implantable vision correction lenses. A source of competitive edge is its technological expertise in producing lenses made from a proprietary material (Collamer). These collamer lenses are especially well-suited for patients with severe myopia who are less suitable for laser surgery. Currently, its sales are dominated by China, where the collamer lens has seen strong adoption. Our investment case was based on STAAR capturing more significant market share in the vision correction industry in its existing geographies (particularly the US and Europe) and expanding into new geographies. However, vision correction surgery is discretionary (costing between $4,000 and $10,000) and in the weaker economic environment sales growth for the company has been slowing. Within the portfolio, STAAR was a small (0.18%) position. With fierce competition for capital, our decision to move on has allowed us to recycle capital into new and higher-conviction ideas.
Sysmex	We have made the decision to divest from Sysmex, a Japanese producer of clinical testing equipment. Our initial investment was driven by Sysmex's strong positions in urine and blood testing, alongside its aspirations for expansion in China and diversification into emerging fields like robotics and liquid biopsy. However, in 2021, Sysmex's growth in China faced significant hurdles due to the Chinese government's intensified Made-in-China policy, designed to favour domestic manufacturers such as Mindray. This has allowed Mindray to increase its market share at Sysmex's expense. Despite Sysmex's efforts to adapt by manufacturing within China, this strategy has eroded its competitive advantage and adversely affected its margin structure. Given these developments, we believe Sysmex's future prospects are now more uncertain. Consequently, we have decided to sell the position.
Woodside Energy Group	Woodside is an Australian oil and gas producer. The company's profitability and share price are closely linked to commodity prices and the share price has been weak since the latter half of 2023. Softening liquid natural gas (LNG) prices, particularly in Asia, have acted as a headwind, as well as the announcement earlier this year that production declined in the first quarter of 2024. The energy sector continues to face challenges due to global economic uncertainties and the ongoing energy transition. We no longer feel we have differentiated insight and have made the decision to sell out of Woodside, allowing us to redeploy capital into new ideas.

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.