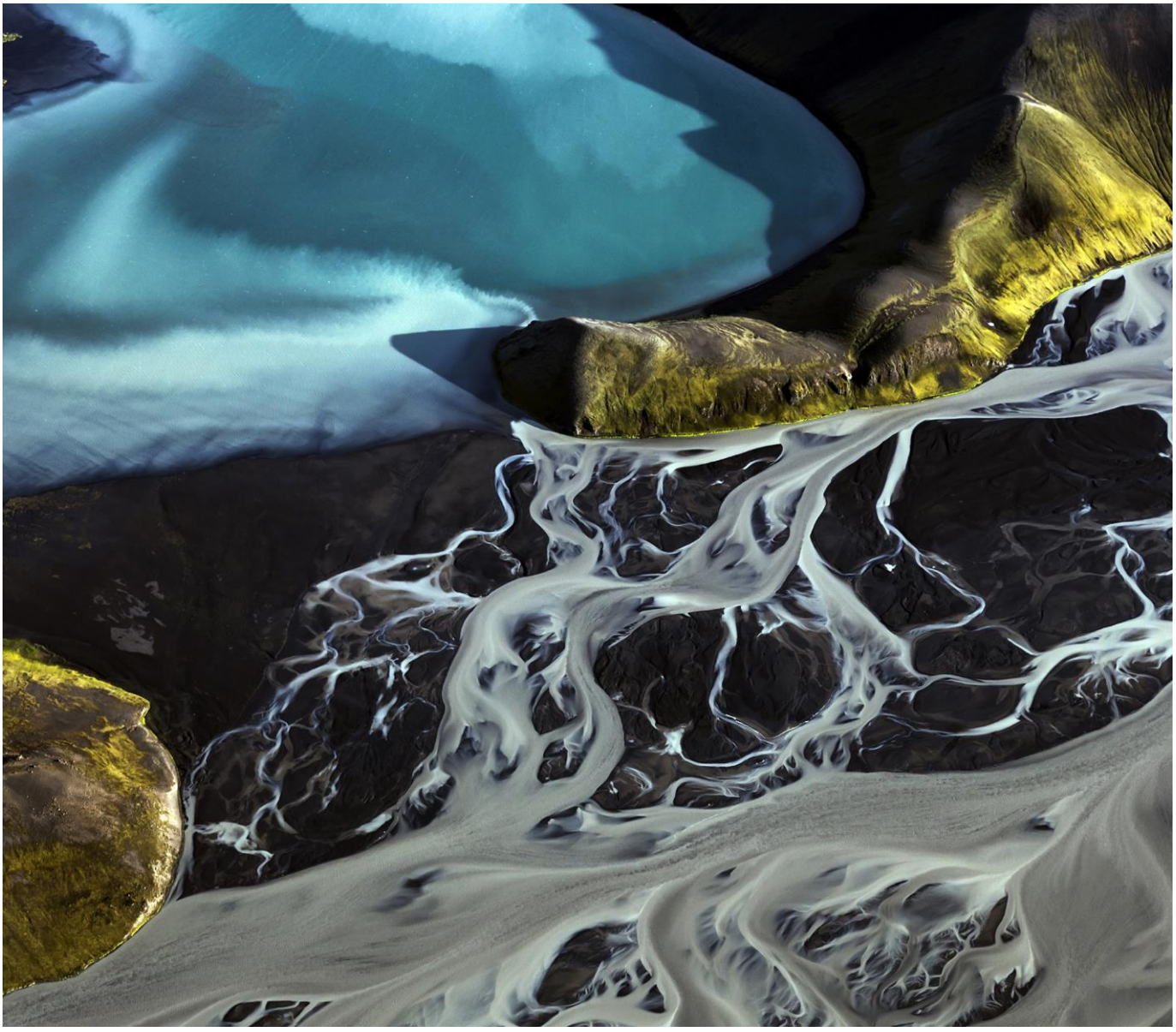
Baillie Gifford™

LTGG Quarterly Update

30 June 2024



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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.

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Product Overview

Long Term Global Growth is a very long term, concentrated global equity strategy focused on investing in exceptional growth companies from around the world. The approach is committed and expressly long term because we believe that investing in companies with the scope to grow to multiples of their current size over the next decade has the potential to transform the returns achieved for investors over time.

Risk Analysis

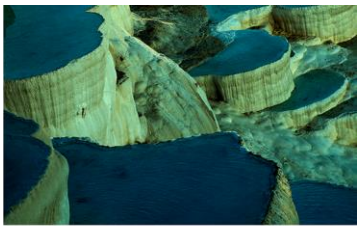
Key Statistics	
Number of Holdings	41
Typical Number of Holdings	30-60
Active Share	89%*
Annual Turnover	16%

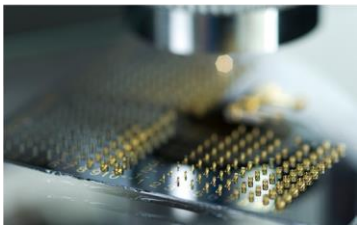
*Relative to MSCI ACWI Index. Source: Baillie Gifford & Co, MSCI.

As the LTGG strategy marks its 20th anniversary, we continue to seek out the multi-bagger opportunities of the future.

The breadth of our investment research inputs continues to drive differentiated outcomes.

The portfolio is positioned to benefit from diversified and robust sources of growth.





Baillie Gifford Key Facts

Assets under management and advice	US$283.7bn
Number of clients	649
Number of employees	1738
Number of investment professionals	372

Sugar rush

We've recently been revisiting and discussing the holding in Dexcom, the Continuous Glucose Monitoring device company. Dexcom is one of the Long Term Global Growth portfolio's "sleeper stocks" in the sense that it generates outsized returns by compounding quietly and undramatically over extended periods of time. Over the eight years or so since we purchased Dexcom, the stock has returned over five hundred percent because the company's platform is indispensable to the two million or so diabetics who rely on it to monitor blood sugar levels. We're still in the foothills of the opportunity because sadly around 500 million people around the world suffer from diabetes. The underlying driver here is the regrettable and ongoing rise in global sugar consumption. It's eye opening to look back at sugar association's lobbying in the 1970's, predicated – remarkably - on the notion that sugar was a useful diet aid[1]. Advertisements in respected publications such as Time Magazine, declared that *"Sugar can be the willpower you need to undereat"* before going on to explain that *"sugar is the fastest energy source around - and when your energy's up, there's a good chance that you'll have the willpower to undereat at mealtime".* More recently, food manufacturers have relied on sugar to give a moreish kick to processed foods that would otherwise taste horribly bland.

There are strong parallels with Mr Market here. Sixty years ago, investment managers purporting to have an information advantage proudly cited the fact that they were on a select list of recipients of an eagerly anticipated annual report. A decade later, such reports were widely distributed, so any edge was then predicated on being close enough to the headquarters to receive those reports first. Now though, all this information is available instantly to all and Mr Market's diet consists of information mined from the same seams by a homogeneous cohort of investment banks. Recently, there has been no shortage of electoral and economic data for them to refine heavily before sprinkling their own sugary prognostications on top.

In LTGG though, our diet is different – not only in terms of the breadth of our sources, but also the levels of access that we enjoy by dint of being long term shareholders. Our recent work in the domain of robotics illustrates this nicely. We were the first investors to tour Tesla's Optimus humanoid robotic lab, enabling us to see how the robots can be used in a factory setting. This augmented our perspectives from recent Amazon Fulfilment Centre tours, and the insights that we gleaned at the recent International Conference on Robotics and Automation. We also recently tried out Intuitive Surgical's newest surgical robot (the da Vinci 5) in Sunnyvale, before heading to Oxford to speak to surgeons about Intuitive's new lung diagnostic tool (Ion) and single-arm surgery robot (Single Port). Our ongoing discussions with Professor Shannon Vallor, the Baillie Gifford Chair in the Ethics of Data and Artificial Intelligence at the Edinburgh Futures Institute, help us to synthesise these different angles as we seek to better understand how developments in machine learning might accelerate the ability to operate autonomous machines in unstructured environments. None of these individual sources of input is going to give a "right answer" on the investment cases of the stocks in question. But together, they help us to calibrate the probability adjusted payoffs in a portfolio context.

The early bird

We remain confident that these differentiated and expanding information sources make us very different to Mr Market. His narrow diet has been causing some interesting market dislocations of late - a small number of crowded trades into a narrow clutch of companies. As a result, over 80% of the global index return has been driven by multiple expansion rather underlying operational growth[2]. We've also seen the highest level of index concentration for over four decades, and – inevitably - a catchy epithet. The "Magnificent Seven" grouping is very unhelpful though. The future attractions of the constituent stocks are far from uniform. At the end of the film that underpins this particular piece of nomenclature, four of the protagonists are dead, remember. This means that as stock pickers, we need to evaluate each of the constituents individually.

Microsoft, Alphabet and Meta, with a combined market cap of $6.5 trillion (remember when we

[1] In the 1970s, Sugar Was Sold as a Diet Aid - The Atlantic

[2] This observation is for the MSCI AC World Index. Our investment risk team regularly helps us to decompose the returns delivered by both the portfolio and the index to assess whether they have been driven by operational growth, changes to multiples or portfolio activity. They use a methodology that has been independently developed and verified by the Willis Towers Watson Thinking Ahead institute.

debated whether $1trn was plausible?) collectively plan to spend $130bn on technical infrastructure capex this year[3]. But as in any investment arms race, the spending is motivated as much by defence as offense; none wants to be left behind, for fear of falling victim to disruption. It's safe to say that these companies' days of capital light returns are well and truly over, but we're watching them closely from the sidelines. The same applies to Apple. We still kick ourselves for selling this holding too early a decade ago, having underestimated the scope for profit margin expansion even as the top line slowed. From here, we acknowledge that Apple is well positioned because data is the name of the game when it comes to Artificial Intelligence (AI), and iPhones are full of it. But in order to consider the company as a portfolio holding from here, we'd need a market cap of over $6 trillion and the associated assumptions are too heroic for us to entertain, particularly as the company seems disproportionately exposed to souring trade relations between the US and China and ever increasing competition. Is it rational that the four stocks mentioned above are collectively worth more than the entire Chinese stock market? Time will tell.

Amazon, NVIDIA and Tesla meanwhile, remain portfolio holdings; more interesting propositions to us - but for very different reasons. In the former case, Amazon Web Services (AWS) is now a $100bn annual revenue business in its own right. As AWS has expanded from infrastructure into services, operating margins have widened out to the highest level for a decade. A continuation of the current high teens growth over the very long term seems perfectly plausible and applying a market multiple to the associated resulting earnings stream implies 2x upside. Beyond the value inherent in AWS, Amazon's advertising ecosystem is now a highly profitable torchbearer for the rapidly growing retail media industry and Amazon has captured a mid-teens percentage share of the US digital ads market. This marks a rapid closure of the gap to Google and Meta and the first real threat to their dominance in a decade. With Amazon embracing video and streaming opportunities within the TV market, we suspect that this shift of momentum has considerable legs.

NVIDIA meanwhile, has added a cool $2.8 trillion or so of market capitalisation over the last 18 months. Year on year revenue growth of over 260% bears testament to the fact that most artificial intelligence roads lead back to its CUDA operating system. The likes of Microsoft, Alphabet and Meta feature amongst NVIDIA's largest customers and in this regard, the company is directly benefitting from the capex of other monoliths, with astonishing margins[4] as a result. Is it ridiculous to suggest that NVIDIA could grow at 30% per annum for the next six or seven years? We don't think so, but at the same time we know that this is a cyclical industry and with technical factors at play[5]. The exit multiple needed for significant upside is starting to look stretched. We've therefore continued to recycle money out of NVIDIA in recent months, despite it remaining a high conviction position.

Tesla represents more of a conundrum for us. A decade into our holding of the company, we're perturbed by its ageing product range, brutal competition within the electric vehicle (EV) industry and assorted examples of cultural clumsiness. Offsetting these concerns, Tesla's vertical integration still underpins structurally higher margins than competitors. If the price wars prevail, industry consolidation seems inevitable and Tesla could be one of the last standing EV players. Meanwhile, there are signs of the energy storage business finally sparking into life – a $6bn revenue business now, and Tesla's highest margin division in a triple digit growth sector. After many years of unfulfilled promises, the Full Self Driving (FSD) software is now improving rapidly too – currently ingesting around 15 million miles of data per day and probably closer to commercialisation than the market is prepared to countenance. Our colleague Michael Pye recently used version 12 for a few days with minimal manual interventions[6]. A scenario whereby Tesla licenses this software to 10% of global car fleet at a subscription rate of, say, $100 per month implies a revenue stream approaching $200bn per annum. We continue to debate the probability that we should ascribe to this scenario playing out with Tesla earning Apple-like margins on the associated revenue stream. Tesla is a much

[3] This is not the first time we've seen a group of scaled incumbents spend heavily in an investment cycle. The combined capex of Exxon, Chevron, Total, Shell and BP peaked at $160B back in 2013

[4] 73% gross margins and 50% operating margins

[5] Traders buying call options force brokers to buy more shares, pushing the share price higher, boosting demand for calls and so on

[6] The longest stretch was 250 miles in one day with two interventions: one because Michael thought it was about to take a wrong turn (but he was wrong), and another when it actually took a wrong turn (and Michael was right).

Stock	Purchased	Sold	Return Over Holding Period[7]	% Of Portfolio Spent Over Last 10 Years[8]		
				In	Out	Net
Alphabet	2008	2021	232%	+2.4	-7.8	-5.4
Amazon	2004	Still held	8832%	+1.8	-11.5	-9.7
Apple	2009	2014	885%	+0.0	-4.3	-4.3
Meta	2012	2022	192%	+1.6	-4.0	-2.4
Microsoft	2004	2007	32%	-	-	-
NVIDIA	2016	Still held	6106%	+2.8	-14.7	-11.9
Tesla	2013	Still held	5448%	+4.7	-20.5	-15.8
			Total	**+13.3**	**-62.8**	**-49.5**

smaller holding than was once the case – a reflection of the varied views on its prospects within the team.

Stepping back from the specifics, the numbers overleaf show that the market is rather late to the party on all of these stocks. The early bird of LTGG caught most of these worms a long time ago, enjoying chunky returns from six of them, despite the inevitable hairy gyrations along the way.

As you can see, over the last decade we've recycled a net 50% of the portfolio out of the stocks in the table above into a much broader range of younger holdings[8]. Overall then, it's been a regenerative approach to portfolio construction.

Compelling disconnects

As a result of the market's current Magnificent Seven blinkers, several groups of portfolio holdings have been left behind in share price terms, despite their captivating growth prospects.

Surfing on the infrastructure laid by others

One such cohort relates to some of the companies that are building business models on top of the infrastructure that is being laid by others. This is interesting because in many previous infrastructure booms – from rail tracks to telecoms cables to road networks – the greatest profits have accrued to those who have established offerings on top of the foundations rather than the breakthrough technologies themselves.

– Symbotic is a good case in point. This company's AI enabled warehouse robotics technology taps into ever-improving machine learning capabilities, enabling pallets to be moved through warehouses around twenty times more cheaply than would traditionally have been the case. This recent holding's top line has grown by around sixty percent over the last year and Symbotic's products are in such demand that its order backlog represents ten years of current revenues. For now though, this stellar progress is going unnoticed in share price terms.

– Solar inverter company Enphase enjoys similarly attractive dynamics. Its business model sits on top of rapidly expanding solar and battery infrastructure. Enphase remains the partner of choice for the fragmented solar installation industry in the US and we envisage them playing a key role in the intelligent matching of domestic energy supply and demand. With the market's focus on temporary short-term headwinds, there's a mismatch between this holding's price and its prospects and we've been adding to the position because we believe that this disconnect will ultimately resolve itself.

[7] In base currency to end of March

[8] A large proportion of those trims have been off the 10% stock holding limit, having run the winners

Offering superior value

Another group of holdings stands to benefit from their ability to offer better value in their respective fields. In an economically challenging environment, this is clearly a very useful attribute, but again underappreciated by the market at present.

– Chinese online services platform Meituan, for example, is seeing strong revenue growth partly because many consumers in China are feeling the pinch at the moment. Online meal delivery represents a more economical choice than a trip to the supermarket and the platform is enjoying an additional kicker from the skew towards lower-end accommodation within its travel offering. Despite a bit of a recent bounce, Meituan's market cap remains at a quarter of the level three years ago. As with other Chinese holdings, we're being asked to pay very low multiples for a very solid growth opportunity. The increased upside seems like ample compensation for the increased China risks.

– Cancer drug developer BeiGene is another case in point – a company whose business model is predicated on providing better value than large pharmaceutical incumbents. BeiGene's costs are around thirty percent lower than peers because of their superior operational flexibility which allows dynamic flexing between locations according to relative costs[9]. Revenues are growing at a good clip and BeiGene's competitive cost advantage is set to grow from here as the company ramps its own biologic capacity. Despite the attractions, the market remains allergic to uncertainty, and because BeiGene is one of the small handful of portfolio holdings yet to reach cashflow breakeven, the attractions have yet to be reflected in the share price.

Beneficiaries of deglobalisation

A third set of companies stands to benefit from ongoing geopolitical friction in a way that is not currently being recognised by the market.

– Cloudflare helps companies to defend themselves from the exponential growth in cybersecurity risks. Following a 175% rise in Distributed Denial-of-Service (DDoS) attacks over the last year, an increasing number of companies are coming to rely on their services. Revenues are growing at over thirty percent per annum and Cloudflare now fends off up to 140 billion attacks every day. Leaders Michelle Zatlyn and Matthew Prince are building this company on the basis that revenues can grow tenfold from the current $1 billion, but the shares have broadly gone sideways for a couple of years and our recent addition to the holding is based on a view that the market is missing this compelling growth opportunity.

– Meanwhile, geopolitical tensions are ushering in a range of protectionist measures. Five years ago, few US auto manufacturers would have worried about being knocked off their perches by a Chinese phone company. But Xiaomi means business[10] and Joe Biden has responded by quadrupling the import tariffs on Chinese EV cars and Rivian may well be one beneficiary of the resulting brand nationalism. The aspirational story here is founded upon the rugged outdoors. Recent discussions with the management team have increased our confidence that there's a path to substantially better margins than other manufacturers. Rivian's potential to emerge as a winner in a substantially consolidated industry has been boosted by a $5 billion investment from Volkswagen but remains a long way from being reflected in the current share price.

What else is on our minds?

While the examples above illustrate the underpinnings of our growing confidence and enthusiasm in the vast majority of the portfolio, we are scratching our collective pates (some more hirsute than others) on a few other holdings.

Moderna is a bit of a conundrum. Our conviction in the underlying potential of its computational biology platform remains strong and recent share price strength reflects decent progress in the respiratory franchise beyond Covid. To really move the outlier dial though, we need to see further progress from the cancer vaccines. Recent data on this front is incrementally promising but the value is reliant on oncology projects with long-dated and uncertain paybacks. In the round then, the current holding size feels about right. Meanwhile, in the case of enterprise software company Atlassian (a 7.5x returner since 2016), we're musing on whether

[9] At present for example, many of BeiGene's clinical trials are being undertaken in Japan which has become notably cheaper due to recent moves in the Yen

[10] The XU7 allegedly offers Porsche Taycan beating performance for half the price

much of the growth runway is in the past rather than the future. In the case of content platforms Spotify and Roblox, we're asking ourselves whether there is as much intrinsic operational leverage as we might have hoped and expected. We've also moved on from a couple of small and relatively short lived holdings. The first of these is synthetic biology company Ginkgo Bioworks, whose royalty based business model has struggled to gain traction. The second is Buy Now Pay Later Company Affirm, whose competitive advantage has been eroded in an increasingly crowded market.

Meanwhile, our ideas geyser is gushing nicely. In the last three months, we have used recent sales and reductions to recycle capital into three new holdings for the portfolio.

Cosmetics company e.l.f. Beauty combines an outsourced, heavily vetted and low-cost manufacturing base, with a digitally focussed approach to offer quality cosmetics to mass market consumers twice as fast as incumbent players and at considerably lower prices. Its fantastic growth has been catalysed by a remarkable online marketing strategy involving the "e.l.f. Beauty Squad" – four million loyal advocates who post real user reviews and drive a formidable feedback loop. The brand's messaging around authenticity and cruelty-free products resonates deeply with the target audience for whom the product is as much about entertainment as the underlying product.

In contrast to this relatively young upstart, the provenance of Chinese baiju spirit company Moutai dates back to the Han dynasty. Moutai's input ingredients of orghum, wheat and water from the Chishui River are fermented, distilled and aged in the town of Maotai in Guizhou province. We wrote our first formal ten question research note on the company around seven years ago now. We've been following Moutai (and the trebling of their share price) closely since. In LTGG, our job on our clients behalf behalf can be boiled down to finding companies which can compound at outlier rates through growth, competitive position and longevity. Moutai has all three of these and the valuation is at an eight year low. As arguably the sole true luxury brand in China with a geographical imperative reminiscent of the champagne region, we believe that Moutai can comfortably compound its top line in the mid-teens for a decade – a Hermès-like path to an outlier scenario.

Meanwhile, Titan's entry to the portfolio[11] follows our work on a lengthy list of Indian stock ideas. This company owns a number of brands in the Indian jewellery market which is not only massive (more than 2.5 times larger than the US on a GDP adjusted basis) but also growing strongly, thanks to the enduring cultural enthusiasm for both Diwali and wedding celebrations. The free "Karat meter" jewellery gold purity testing service offered in Titan's Tanishq chains reveals over 60% of gold bought from local artisans to be less pure than claimed. The trust that Titan has earned as a result will, we believe, drive continued market share gains for a very long time. Post election market volatility following Mr Modi's recent travails provided a good entry point for us.

Slow Release Energy

It remains the case that the portfolio's returns are being driven much more by fundamental progress than overarching multiple expansion. Indeed, LTGG's five year returns, whilst comfortably ahead of the index, have been compromised by multiple compression which has partly offset the underlying growth return. This stands in contrast to the index. With further electoral activity in the months ahead, Mr Market will have plenty more sugary polls and data feeds to tuck into, so his ability to distinguish between short term price and long term value may remain compromised for a while.

At some point though, the sugar rush will wear off. When it does, the broad, diversified and muscular growth drivers within the LTGG portfolio should increasingly come to the fore. This is exciting because it points to clear and material latent upside that will be unlocked in the years ahead.

[11] For clients that are permitted to hold it by the Securities and Exchange Board of India (SEBI). Please contact us if you have any questions about this

The LTGG Euler Diagram

The diagram below represents our current view of stock concentrations in the LTGG model portfolio. We have identified what we believe to be the key driver(s) of each stock and have grouped stocks as appropriate. Circle sizes are based on the aggregate stock holding weights in the portfolio and some stocks are represented in more than one circle. The font size is indicative of the size of the holding in the portfolio – the larger the font the larger the position within the portfolio. We use this diagram as an input to our consideration of risk and diversification in the portfolio and we review it on an ongoing basis. The classifications are subject to change over time as our views evolve.

Performance Objective

No formal performance objective but typically compared with MSCI ACWI Index or FTSE All World Indices achieving +3% p.a., net of fees, over typical global equity index over rolling 5 year periods.
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	3.5	2.9	0.6
1 Year	22.1	20.6	1.5
3 Year	-5.6	9.1	-14.7
5 Year	14.4	11.4	3.0
10 Year	18.0	12.3	5.7
Since Inception	14.2	10.4	3.8

USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	3.6	3.0	0.6
1 Year	21.4	19.9	1.4
3 Year	-8.4	5.9	-14.3
5 Year	14.2	11.3	3.0
10 Year	14.5	9.0	5.5
Since Inception	12.1	8.4	3.7

EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	4.4	3.8	0.6
1 Year	23.5	22.1	1.5
3 Year	-5.2	9.6	-14.8
5 Year	15.6	12.6	3.0
10 Year	17.3	11.7	5.6
Since Inception	12.9	9.1	3.8

CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	4.7	4.2	0.6
1 Year	25.5	24.0	1.5
3 Year	-5.3	9.5	-14.8
5 Year	15.3	12.3	3.0
10 Year	17.4	11.8	5.6
Since Inception	12.2	8.5	3.7

AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	1.2	0.6	0.6
1 Year	21.0	19.5	1.4
3 Year	-4.7	10.1	-14.9
5 Year	15.4	12.4	3.0
10 Year	18.5	12.8	5.7
Since Inception	12.9	9.1	3.8

Annualised periods ended 30 June 2024. 3 Month & 1 Year figures are not annualised.
Inception date: 29 February 2004
Figures may not sum due to rounding.
Benchmark is MSCI ACWI Index.
Source: Revolution, MSCI.
The LTGG composite is more concentrated than the MSCI ACWI Index.

Discrete Performance

GBP	30/06/19-30/06/20	30/06/20-30/06/21	30/06/21-30/06/22	30/06/22-30/06/23	30/06/23-30/06/24
Composite Net (%)	61.1	44.6	-41.9	18.6	22.1
Benchmark (%)	5.7	25.1	-3.7	11.9	20.6

USD	30/06/19-30/06/20	30/06/20-30/06/21	30/06/21-30/06/22	30/06/22-30/06/23	30/06/23-30/06/24
Composite Net (%)	56.4	61.7	-48.9	24.2	21.4
Benchmark (%)	2.6	39.9	-15.4	17.1	19.9

EUR	30/06/19-30/06/20	30/06/20-30/06/21	30/06/21-30/06/22	30/06/22-30/06/23	30/06/23-30/06/24
Composite Net (%)	58.5	53.1	-42.1	19.0	23.5
Benchmark (%)	4.1	32.5	-4.0	12.2	22.1

CAD	30/06/19-30/06/20	30/06/20-30/06/21	30/06/21-30/06/22	30/06/22-30/06/23	30/06/23-30/06/24
Composite Net (%)	63.0	47.0	-46.8	27.4	25.5
Benchmark (%)	7.0	27.2	-11.8	20.2	24.0

AUD	30/06/19-30/06/20	30/06/20-30/06/21	30/06/21-30/06/22	30/06/22-30/06/23	30/06/23-30/06/24
Composite Net (%)	59.4	48.3	-44.3	28.3	21.0
Benchmark (%)	4.6	28.3	-7.6	21.0	19.5

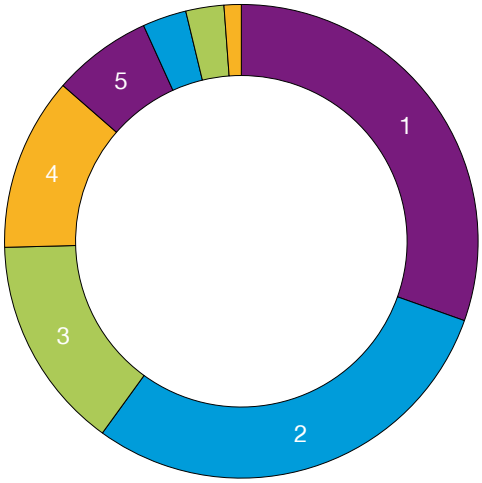
Benchmark is MSCI ACWI Index.
Source: Revolution, MSCI.
The LTGG composite is more concentrated than the MSCI ACWI Index.

Top Ten Largest Holdings

Stock Name	Description of Business	% of Portfolio
NVIDIA	Designer of Graphics Processing Units and accelerated computing technology	7.8
Amazon.com	E-commerce, computing infrastructure, streaming and more	6.9
ASML	Semiconductor equipment manufacturer	5.3
PDD Holdings	Chinese e-commerce platform focused on social commerce	4.3
Intuitive Surgical	Surgical robots and consumables	3.7
The Trade Desk	Advertising platform	3.7
Netflix	Streaming platform	3.5
Meituan	Chinese online services platform	3.3
Cloudflare	Web infrastructure and cybersecurity provider	3.2
Dexcom	Continuous glucose monitoring technology for diabetes management	3.0
Total		44.6

Figures may not sum due to rounding.

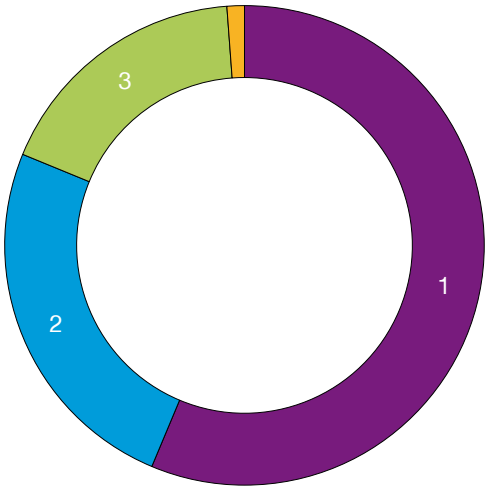
Sector Weights



		%
1	Information Technology	30.4
2	Consumer Discretionary	29.5
3	Communication Services	14.6
4	Health Care	11.8
5	Financials	6.8
6	Industrials	3.0
7	Consumer Staples	2.6
8	Cash	1.2

Figures may not sum due to rounding.

Regional Weights



		%
1	North America	56.3
2	Emerging Markets	24.9
3	Europe (ex UK)	17.6
4	Cash	1.2

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	31	Companies	20	Companies	3
Resolutions	297	Resolutions	50	Resolutions	3

Company Engagement

Engagement Type	Company
Environmental	Adyen N.V., NVIDIA Corporation, Sea Limited
Social	Adyen N.V., Intuitive Surgical, Inc.
Governance	Advanced Micro Devices, Inc., Adyen N.V., Affirm Incorporated, Enphase Energy, Inc., HDFC Bank Limited, Intuitive Surgical, Inc., Kering SA, Moderna, Inc., Sea Limited, Tesla, Inc., The Trade Desk, Inc.
Strategy	Adyen N.V., MercadoLibre, Inc., Nu Holdings Ltd.

Company	Engagement Report
Adyen	Objective: This quarter, we held two meetings with Adyen's sustainability team and chief financial officer. One focused on our ongoing climate engagement, specifically on Adyen's emissions reduction targets and downstream emissions progress. In the second meeting, we provided input into Adyen's materiality exercise to identify the most significant ESG issues for the business. Discussion: Regarding climate, we encouraged Adyen to take a bottom-up approach to target setting. It is taking a thoughtful approach, and we hope to see targets soon. Disappointingly, it has rolled back its work on engaging customers on emissions after seeing little demand for its offset at the point of payment trial. We suspect this has also been influenced by the criticism it received for previously offering low-quality offsets through the consultant Southpole. This was the second year we provided an investor perspective on Adyen's ESG materiality exercise. We were encouraged to see the company respond to the feedback we offered last year. The backdrop to this request is the EU's latest sustainability disclosure regulation, the Corporate Sustainability Reporting Directive (CSRD), which requires companies to assess and prioritise ESG issues for reporting purposes against the two dimensions of impact (defined as 'how the company affects people and the environment') and financial materiality (described as 'effects that flow through to the company's bottom line'). CSRD introduces complex and onerous reporting requirements, so we were eager to understand how internal processes have adapted in response. Outcome: Our climate engagement improved our knowledge of Adyen's emissions reduction approach, and we provided the company with guidance on what we think is best practice. We welcome the opportunity to continue supplying Adyen with our input in their CSRD materiality exercise.
Affirm	Objective: We met with Affirm's chief executive officer and chief financial officer at its headquarters in San Francisco to assess the company's strategic response to recent challenges, including its sensitivity to interest rates, the path to profitability and regulatory concerns. We also sought to understand Affirm's competitive edge in an increasingly commoditised market. Discussion: During a volatile period marked by sensitivity to interest rates, Affirm has prioritised reducing cash burn to regain the confidence of equity and debt markets, which are crucial for its funding model. This has led to significant margin improvement and adjusted operating profitability, achieved partly by laying off 20 per cent of staff. This move, while improving margins, raises concerns about the sustainability of growth. Meanwhile, competition has intensified as entry barriers have lowered, and we used our discussion to clarify Affirm's scope for differentiation. Additionally, we questioned management on growing regulatory concerns, particularly the concept of 'phantom debt'. Affirm's leadership clarified its position, emphasising the minor role of Buy Now Pay Later (BNPL) in the broader consumer debt landscape and its proactive approach to potential regulatory changes affecting credit scores. Outcome: Our discussions revealed a company at a crossroads, grappling with the need to balance immediate financial stability with the imperative for innovation and market leadership in the context of an evolving funding and regulatory environment.

Company	Engagement Report
HDFC Bank	Objective: Over the past year, we have held several meetings with multiple members of HDFC's senior management (chief executive officer, chief financial officer, head of mortgages and head of commercial rural banking). This included a visit to its Mumbai offices, to understand the impact of the merger between HDFC Corp and HDFC Bank, particularly on its growth prospects, governance and culture. Discussion: When India's largest mortgage lender, HDFC Corp, merged with its subsidiary HDFC Bank in 2023, it was the largest merger in India's corporate history. Our discussion focused on the merger's impact on the newly merged HDFC Bank's deposit and loan growth, particularly given additional reserve requirements and unexpected liquidity tightening across the Indian banking system. As branches are the central deposit engines for Indian banks, we discussed the company's branch expansion plans to understand how HDFC Bank plans to support growth in the face of these challenges. The location of the branch is an important factor, and HDFC Bank has been expanding into smaller towns and cities, which generate lower growth rates. While there are clear strategic intentions behind the expansion and evidence of some success in deposit growth, we will continue to monitor the realistic pace of deposit and loan growth in the future. Given the importance of the cultural pillar to our investment thesis, we also discussed how leadership managed the integration of two distinct corporate cultures and its impact on employee engagement and attrition, especially at the management level. Management has identified this as a priority. There has also been a noted shift in work culture preferences among the younger generation, favouring a flat versus hierarchical working environment, to which management is responding. Outcome: While substantial hurdles exist, HDFC Bank is making strategic adjustments. We were reassured that asset quality remains excellent, and we continue to see the old conservatism on display. The reality post-merger has highlighted the difficulties in integrating two distinct cultures; however, HDFC Bank's management acknowledges this and places a strong focus on creating a supportive working environment and reducing attrition.
Kering	Objective: Following recent challenges faced by its flagship brand, Gucci, we met with Kering's chief executive officer, François-Henri Pinault, and chief financial officer to gain reassurance on the company's growth runway and to understand succession plans. Discussion: While there are positive aspects related to brand resilience and the potential growth of other brands, the company is currently facing significant challenges, including sales decline, transition challenges and succession uncertainty. Gucci's declining sales in recent quarters have been attributed to both internal and external factors, such as a weak Chinese market and the transition to new collections by Sabato De Sarno. We discussed leadership's focus on elevating Gucci's brand through the Ancora collection, avoiding price reductions to maintain brand integrity, and improving inventory management. Having Francesca Belletini, deputy chief executive officer of the group, spend two days a week at Gucci highlights a hands-on approach to addressing the brand's challenges. Additionally, Pinault's candid discussion on succession planning revealed a forward-looking perspective on leadership transition. Outcome: Since we first purchased Kering in 2008, the company has demonstrated resilience and strategic foresight, showcasing the enduring appeal of luxury even in challenging times. The company is in the midst of a 12-18 month transition period for Gucci, and the full impact of this strategy will take time to unfold.

Company	Engagement Report
Moderna	Objective: Ahead of Moderna's 2024 AGM, we had a call with the company's chief legal officer and her team to better understand the board's approach to refreshment and executive compensation. We have been advocating for compensation alignment, long-termism, and board refreshment for several years, and we again were able to ask about the board's plans in these areas. Discussion: While there have been recent rotations between board committees, Moderna informed us that we can expect board refreshment within the next 12 months. Following an external board review, it is looking for pharmaceutical expertise and is interested in experience in responsible AI and government affairs. We agreed that more expertise in these areas will be essential for the company's ambitions in the next five years. Again, we expect to see further improvement and long-termism in executive compensation in the next plan. Finally, we discussed Moderna's approach to equal pay, ESG, and its work with suppliers to reduce their emissions. We questioned its approach to climate risk, on which it has done a company-wide assessment in 2023. Outcome: We continue to support Moderna's long-term shareholders and look forward to any announcement of new board directors. On the call, we queried whether Moderna would consider a more differentiated and simplified approach to its compensation plan. We plan to discuss this again before the company sets future plans.
Sea Limited	Objective: We met with Sea Ltd to continue discussing board composition and remuneration and hear an update on the company's developing climate strategy. Discussion: Our engagement focused on board recruitment, including management's considerations and efforts in recruiting new board members, focusing on finding individuals with the correct skill set. We also discussed remuneration, particularly a recent executive compensation cap. Sea Ltd clarified its remuneration approach and reassured us that employee pay is competitive. The meeting also provided an opportunity to question the company's climate change strategy. While there are no immediate plans to set decarbonisation targets, Sea Ltd has considered climate and has published scope 1 and scope 2 emissions data, indicating relatively low emissions. Future emissions reductions are expected to result from broader operational improvements. Outcome: Overall, our engagement highlighted ongoing efforts and challenges in board recruitment, which we will continue to monitor. Sea Ltd's actions reflect responsiveness to investor concerns and a willingness to improve governance and environmental stewardship.

Company	Engagement Report
Tesla, Inc.	Objective: Ahead of the 2024 AGM, we engaged with Tesla's board to discuss two important resolutions: the reincorporation of the company from Delaware to Texas and the ratification of CEO Elon Musk's 2018 Option Award. We sought to better understand the rationale for both proposals and why the board considered them critical for Tesla's long-term strategy. Discussion: We spoke to board chair Robyn Denholm and the company's general counsel. Given the technical nature of both proposals, we supplemented these discussions with independent legal advice. These conversations built upon the extensive disclosures provided in Tesla's proxy statement. Specifically, we discussed the process, culminating in the board putting forward reincorporation and ratification proposals. We discussed the similarities and differences between Delaware and Texas law regarding shareholder rights and protections. We also queried using a Special Committee consisting of only one independent director and how the board thinks about the infancy of Texas corporate law relative to Delaware. The conversations helped us better understand how both proposals fit with Tesla's appeal of the Delaware Chancery Court's original judgement to rescind Musk's 2018 award, including various post-AGM scenarios. Outcome: These discussions were critical to informing the analysis of each proposal and our final voting decisions. After considering the available information, we supported both resolutions for clients for whom we have voting discretion. Regarding Tesla's reincorporation in Texas, we are reassured that much of Texas's laws are based on Delaware's laws and believe there could be benefits from home state incorporation. Regarding ratifying the 2018 option award, we acknowledge the process and governance deficiencies outlined in the Delaware judgement. However, we believe an agreement between the majority of shareholders and the chief executive officer should be honoured. We were consulted before the grant in 2018, believing then and now that the structure of the option grant provided good alignment with our clients' best interests. We believe these decisions are in our clients' best interests. Both proposals were subsequently approved by shareholders. We look forward to continuing our dialogue with the company, including discussions on strengthening its corporate governance.

New Purchases

Stock Name	Transaction Rationale
e.l.f. Beauty	We decided to purchase a new holding in Elf Beauty. The company has been growing rapidly over recent years thanks to the rising popularity of its low-priced, cruelty-free cosmetics. The company has a very distinctive social media presence compared to incumbents and has been gaining all-important shelf space at leading American cosmetics retailers. There is still significant scope to increase market share in the US, while the company is still in the very early stages of its expansion overseas.
Kweichow Moutai	Kweichow Moutai is one of the most important and iconic Chinese brands. It manufactures premium baijiu (white alcohol) with a heritage and respect embedded in Chinese culture. It's considered China's national spirit and is often served at state banquets and important events. Moutai can only be produced in the town of Maotai in China's Guizhou province due to specific climate and raw material requirements, and it has its own protected designation of origin, similar to fine wines like champagne. When combined with supply scarcity and limited competition in the very high-end market, Moutai can price at a premium and maintain a loyal customer base. It is a highly profitable business, and we believe in the strength and heritage of the brand, the sustainability of revenue growth, and the longevity of its core competitive advantage.
Titan Industries	We have taken a new holding in Titan, India's leading jewellery retailer. The domestic jewellery market in India is the largest in the world, with strong demand driven by Diwali and weddings. This demand is ingrained at the level of tradition which makes it durable. This massive market has historically been dominated by informal retailers who still have 90% market share. Titan is the clear leader among the formalised players and therefore the chief beneficiary of structural share gains as the market undergoes premiumisation with rising income levels. Titan has also begun expanding internationally to address the Indian diaspora, which can further boost growth. Management's long track record attests to exceptional execution and the board are firmly aligned with our long-term time horizon. The non-jewellery businesses provide additional option value but they are not material to our core growth case.

Complete Sales

Stock Name	Transaction Rationale
Ginkgo Bioworks	We have sold Ginkgo because the business model is not working and there is now a material chance of complete failure. Our investment thesis was that, as Ginkgo took on a widening range of bio-engineering programs from a diverse group of customers, the value of its platform would be continually enhanced, its probability of success with each program would rise, and downstream royalties would be earned on the resulting products. The reality is that customers have proven unwilling to hand over control of research to Ginkgo, and downstream value share has been sparse due to the length and complexity of commercialisation. The company has belatedly proposed a new model where customers' own scientists can access Ginkgo's capabilities for themselves and control the process ('Lab Data as a Service'), however, the timeline for this pivot is uncertain and its upside potential seemingly lower. We remain supportive of the management team and will continue to follow the company's progress with interest from the sidelines.

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