

LTGG Quarterly Update

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30 September 2024



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## **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.

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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	39
Typical Number of Holdings	30-60
Active Share	90%*
Annual Turnover	16%

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

As the LTGG strategy marks its 20th year, we continue to seek outlier opportunities of the future

Growth rates in LTGG are accelerating and the gap with the index is widening

Valuations have not caught up with the portfolio's fundamental progress, presenting fruitful conditions for long term return generation



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

September is always an exciting month at Baillie Gifford. In keeping with academic calendars here in the UK, it is when we welcome our new graduates. The sense of new beginnings is palpable, and with it comes a buzz to our Edinburgh office. Each cohort shares a common peculiarity: little to no background in investments. This grants us the opportunity to revisit, from first principles, what it is we believe while also providing us with valuable fresh perspectives for understanding this ever-changing world.

Little do they know that much of what they will learn throughout their investment careers is how to fend off some of our most dangerous instincts: the near gravitational pull toward pessimism and the consequential push toward risk aversion.<sup>1</sup> We instead encourage them to supplement this with a conscious effort to understand the power of exponential growth on returns.

For those who start their training with the Long Term Global Growth (LTGG) team, the task appears simple: look for the world's best growth companies, regardless of where they may be in the world. And be open-minded to where that growth may come from, it will often surprise.

The arrival of the graduates is also a reminder of another year passing and it is sometimes hard to believe that LTGG has entered its third decade. And while we have already been witness to remarkable levels of technological change and progress over the last twenty years, it feels like we are only just getting started.

We have rarely felt more enthusiastic about the opportunity for outsized returns. Growth rates in LTGG are and have always been ahead of the index<sup>2</sup> but the gap is widening. This acceleration is being driven by technological unlocks, strengthening of network effects, and shifting industry dynamics. Importantly, valuations have not caught up. We believe these conditions should be fruitful for long-term return generation in the years ahead.

## Overlooked growth

<sup>1</sup> We should specify, the most dangerous instincts for the long-term investor.

<sup>2</sup> 12-month historic growth rates: revenue 15 per cent (4x the index) and earnings 55 per cent (20x the index). 5-year historic growth rates: revenue 28 per cent p.a. (5x the index) and earnings 26 per cent p.a. (4x the index).

LTGG has always been focussed on bottom-up stock picking and we remain steadfast in our view that making top-down portfolio construction decisions is an easy way to miss out on some of the most extreme growth, and therefore returns, on offer.

By way of example, global growth for the “advertising market” is expected to be 8 per cent this year. This is hardly the magnitude that excites us as high growth investors, but it also tells you little if anything about the changes afoot and masks the success of individual companies racing ahead. On the one hand, behemoths like Alphabet (Google’s parent company) are coming under increasing regulatory pressure for cornering all angles of the market - buying, selling and being an exchange. Measures like Apple’s App Tracking Transparency (introduced in 2021) have also been a means to reduce the power of these walled gardens. Portfolio holding **The Trade Desk** (TTD), a demand-side only platform, on the other hand, is a beneficiary of these changes.

TTD analyses over 900 million impressions<sup>3</sup> per minute to match the advertiser with the opportunities that will generate the highest return on a given budget. The uplift from this technology is twofold. As long as TTD continues to prove its superior ability to pair advertisers with the best available ad spaces, more and more inventory will flow to the platform, creating a mutually reinforcing flywheel. TTD’s revenue grows as a function of increasing volumes, while the marketing budgets of users become more efficient. Over the last twelve months the company has grown revenues 25 per cent year-on-year (three times the rate of the broader advertising market) while nearly doubling its earnings.

The value of TTD’s technology is clear, but we expect to continue seeing improvements now that its latest models are strengthening. **Netflix** and **Spotify** have certainly taken notice, and recent partnerships with TTD are a means for these streaming giants to better monetise the hundreds of millions of users on their respective platforms.

We are already seeing the effects at Netflix. In the eighteen months since cracking down on password sharing and simultaneously introducing an advertising tier, 40 million users have opted for a cheaper subscription in exchange for some

<sup>3</sup> Essentially the options available for placing your advert across various digital channels including display, video, audio, social media, and connected television.

advertising. Remember the days when you didn't have a choice whether or not your favourite 40-minute show was sliced by several ad breaks to fill the remainder of the hour? At least now, the adverts you see should be more relevant to *you*, powered in part by TTD.

Having amassed 288 million subscribers, who tune in for an average viewing of 2.5 hours each evening, Netflix has proved its prowess in streaming. In our meeting with the co-CEOs in July, they attributed their industry-leading engagement and lower churn to their focus<sup>4</sup> and sheer scale. A more benign competitive environment, combined with ramping up advertising efforts, puts Netflix in a strong pricing position and profitability continues to rise, with operating margins having reached 28 per cent. At the current valuation, we see plenty of upside.

The shake-up in advertising also provides additional growth vectors for the portfolio's ecommerce platforms. **Amazon** is the furthest into this transformation having begun a mere decade ago, its advertising business is now generating over \$40 billion in revenue, equivalent to approximately 6 per cent of the \$700 billion of gross merchandise value (GMV) flowing through its site. This is further bolstered by more than \$1.8 billion in advertising commitments for Prime Video, where nearly 15 million viewers must subscribe if they want to watch Thursday Night (*American*) Football. And now that they have paid for Prime delivery, why not also buy that new barbeque they've been eyeing up from Amazon instead of driving out to the nearest retail park? The flywheel turns faster.

A similar story is playing out at **MercadoLibre**, now the third-largest digital advertising player in Latin America (behind Alphabet and Meta), but with ample headroom for continued growth. Advertising as a percentage of GMV can triple before it reaches the same level as Amazon. The double-kicker here is that there also remains significant scope for MercadoLibre's GMV to continue growing. Ecommerce penetration in the region is still only 14 per cent of retail (half the rate of China) and efforts such as the revamped loyalty programme are already showing signs of driving better retention and increasing transaction frequency. This is all promising for MercadoLibre's upside. Continued operational excellence points to an increased

probability of outlier returns and as such we have added to the holding<sup>5</sup>.

Advertising is not the only thing these companies have in common; a more valuable shared trait is that they are all open to change and willing to experiment. It is no coincidence that the portfolio's R&D spend as a percentage of revenue (14 per cent) is three times that of the index. Nor should it be a surprise that several holdings have reinvented themselves during our holding period, be it Amazon's book sales dwindling contribution to total revenue or Netflix's DVD delivery service no longer existing (you may be surprised to learn that this only concluded on 29 September 2023!). Continuing to re-imagine a company's possible success is essential to avoid interrupting compounding returns.

### Increasing returns to scale

Digital platforms in the portfolio are not the only ones that are benefitting from technology-enabled growth spurts. Capabilities that were previously the preserve of the few, such as advanced artificial intelligence and battery technology, are becoming widely distributed in very short order, creating exciting new opportunities for increasing returns to scale.

It is perhaps not overly insightful to suggest that electricity's discovery revolutionised the economy. However, at the time, few fully appreciated the extent to which its predecessor, steam, had dictated factory layout. Electricity allowed Henry Ford to be the first to redesign assembly lines to be optimised for workflow requirements, instead of being centred around proximity to the power source. In a similar fashion, the internal combustion engine has influenced the architecture and wiring of traditional vehicles and other modes of transportation. Today's ever-improving battery technology means there is the opportunity to reimagine this too and optimise further.

**CATL**, the world's largest electric vehicle (EV) battery manufacturer, is now looking to deploy its long-range battery technology to aviation, having secured partnerships with Commercial Aircraft Corporation of China (COMAC) and Chinese electric vertical take-off and landing (eVTOL) aircraft manufacturer, AutoFlight. As has been the case with vehicles, electric power allows manufacturers

<sup>4</sup> Unlike most of its meaningful competitors, Netflix does not have any legacy businesses proving to be a distraction.

<sup>5</sup> MercadoLibre has grown revenues over the last 5-years at a CAGR of 55% p.a., only to be exceeded by free cash flow growth of 67% p.a.

to simplify aircraft design. There is no longer the need for complex fuel storage, pumping, and distribution systems necessary with liquid fuels. The scope for improvement is vast and its pace accelerating. Advances such as CATL's 500Wh/Kg condensed battery suggest interesting possibilities, like their recently exhibited 19-seat jet with a 500km range in collaboration with COMAC.

CATL's progress in battery technology has been both non-linear and crucially scalable, rather than limited to laboratory demonstrations. As has been evidenced by the misfortunes of other battery upstarts, matching CATL's translation from laboratory to product is hard. These capabilities can be likened to semiconductor fabs where barriers to production at the advanced nodes, both in terms of capital and know-how, are high. As the energy density and cost of batteries continue to converge with fossil fuels, an era of universal electrification of sea, land, and air transportation seems closer than many appreciate.

**Rivian**, on the other hand, is reconfiguring the layout of electric control units (ECUs), essentially a vehicle's central nervous system. These tiny devices are responsible for functionalities as wide ranging as automatic windows, fuel optimization, climate systems, and more. Rivian has managed to reduce what are ordinarily 60-100 ECUs per vehicle to just seven, by applying what they call "zonal ECU architecture". Not only does this simplify the vehicle and make computer functions more efficient, but it also results in significantly less wiring<sup>6</sup>. This is a structurally lower-cost architecture and one that puts the tier-1 suppliers in a precarious position if it gains momentum industry-wide. The penny has already dropped for Volkswagen (VW) who like many other traditional auto original equipment manufacturers, have struggled to maintain pace with software innovation. The recently announced joint venture (JV) between these two "automakers" means Rivian potentially gets \$5 billion in exchange for helping VW rearchitect its own vehicles. This JV could be the first of potentially several deals to bring incumbents up to speed and could well be Rivian's "AWS moment", yet shares are down more than 50 per cent year to date. As such, we took the opportunity to make a modest addition to the holding.

Commercial vehicles are also getting a long-overdue overhaul thanks to portfolio holding **Samsara**. As a reminder, Samsara looks to turn all physical assets, ranging from commercial vehicles, trailers, industrial equipment, and warehouses into smart assets. This is not a small opportunity to go after (as businesses with some form of physical assets make up as much as 40 per cent of global GDP) but it is a surprisingly greenfield one. Commercial vehicles are the golden thread that runs through this disparate category, so the majority of its customers begin with video-based safety or vehicle telematics products. Once in an organisation, Samsara is able to prove the staggering value it creates for its customers with a return on investment (ROI) of 8x. This is an important lever for growth as it drives both upsell (adoption across more assets) and cross-sell. The network effects at play stem from scale advantages and a growing data set. The more a customer embeds Samsara, the greater the visibility across assets, translating to a higher ROI and a shorter payback period. This provides Samsara with ample scope to raise prices in the future were it necessary.

We expect Samsara will continue to compound revenues more than 25 per cent over the next eight years while also benefitting from increasing operational leverage. Execution to date has been impeccable, so we recently increased our position to reflect our growing conviction in the upside.

These companies are collectively rearchitecting the infrastructure of the future. In a time of scarcity, all help to remove cost and introduce efficiencies for their customers. This degree of progress won't happen overnight. But our investment time horizons afford us the patience to capture more of the upside that is potentially on offer from these multi-decade opportunities.

### Competition for capital

We are currently undertaking an upside review for **NVIDIA**. Hundreds of billions of dollars are being put toward AI-powered data centre buildouts, fuelling the astonishing growth the company has experienced over the last two years. Its latest set of results, however, were met with disappointment and the ripple effect was vast. Despite revenues continuing to climb 122 per cent year-on-year and

<sup>6</sup> A whole 1.6 miles of less wiring!

earnings outpacing at 152 per cent, volatility ensued. Market participants now want to see concrete evidence that these investments will generate returns.

We continue to challenge ourselves to truly interrogate how great an investment opportunity this may be and how differentiated our view remains. If artificial general intelligence comes to pass, could computing rise to a share of the global economy that begins to parallel physical manufacturing? If so, that could infer trillions of spend and allow headroom for NVIDIA revenues to grow 2x, 5x, even 10x or more in theory - and with sufficient likelihood to continue to warrant such a significant position size in the LTGG portfolio.

Our conviction in the upside potential of longstanding luxury brand Kering, however, has waned, leading to a complete sale of the holding. When we first invested in Kering in 2008, our central investment thesis was that the group would evolve from a motley collection of disparate brands into pure luxury. Sure enough, it did become synonymous with the likes of Gucci, YSL, Bottega Veneta, and Balenciaga. However, the multi-brand approach did not result in long-lasting diversification, where the ebbing of one brand's success in any particular period would be offset by the rise of another. Gucci's standout success instead meant it grew to become approximately half of Kering's total sales. And while the brand successfully leaned into the new generation of younger consumers, its styles veered more toward fashion than luxury, more cyclical than timeless. Gucci's high net worth customers appeared increasingly alienated. Support from Kering's other brands hasn't come to bear, as they remain sub-scale and face headwinds of their own. Taking this together with the potential retirement of Chairman and CEO François-Henri Pinault, who has architected the group's success over the past twenty years, we took the decision to sell our holding in August 2024 in favour of higher conviction names elsewhere.

Despite 'only' an approximately 4x return during our 16-year holding period, Kering features among the top ten contributors to LTGG performance since inception in 2004. This phenomenon is a function not just of its longevity in the portfolio, but also its position size. This serves as a reminder that our task in LTGG is threefold: (i) identify the outliers, (ii) hold onto them over time, and (iii) hold onto them at scale.

## The current portfolio

A trade-off to our appetite for such high growth companies is the accompanying share price volatility. Even LTGG's top five returning holdings have collectively had twenty-five individual instances of drawdowns greater than 30 per cent during our holding period. In the short run, multiple volatility can completely dominate share price returns. Indeed, this continues to dominate LTGG's three-year rolling performance, an overhang from the severe 2021-22 drawdown that followed the exceptional portfolio outperformance during the pandemic. And this latest quarter is no different with **Symbotic**, **Dexcom**, **Moderna** and **e.l.f Beauty** all experiencing drawdowns in excess of 30 per cent.

But more than a century of stock market history attests to the fact that companies with the highest rates of earnings growth reap the highest share price returns over five-year periods. We therefore remain laser-focused on finding the most extreme earnings growth prospects that we can, because we believe that if we succeed, it is likely to be the single best predictor of our performance for clients over the long run.

In that respect, the current portfolio is in a strong position. On a five-year basis, delivered earnings growth has been 3.5 times greater than the index. But also, on a forward-looking basis, even consensus numbers, which we take with a large pinch of salt and which tend to be extremely timid relative to our own upside estimates, place nearly 80 per cent of the LTGG portfolio today in the top two quintiles of earnings growth over the next three years. That figure has doubled over the past three years. Moreover, it is twice as much as the index. This attests to the fact that we haven't lost our focus on extreme growth prospects during this period where growth investing has been out of favour.

The premium for LTGG's growth is lower than it has been for many years relative to its own history and relative to the index. This is because LTGG's price-to-earnings-growth (PEG) ratio is currently 1x, which is about half of its five-year historic average, and less than the index which is on 1.5 times. Unpacking this further, 55 per cent of the portfolio companies (by weight) are trading below the midpoint of their 10-year PEG valuation range. It appears that slower, steadier growth is being



favoured by the market. In our experience, outlier returns are achieved by embracing uncertainty.

LTGG continues to find a number of largely overlooked growth opportunities and it is only a matter of time before these exceptional companies with excellent fundamentals are rewarded.

## Conclusion

To us it is always an exciting time to be joining LTGG, but the current conditions feel particularly rich in opportunities for long term growth investors.

One of the first lessons we endeavour to pass on to new graduates is just how inconceivable exponential growth may sometimes seem. We can't help but ask the same questions year after year:

*“How many grains of rice would you need to fill a chessboard if you place one grain on each square?”*

A resounding “64!” can be heard. Clearly too easy.

*“Now how about if you start by placing one grain on the first square, and double with each new square? 1,2,4,8... How many grains of rice would you need then?”*

Few, if anyone,<sup>7</sup> will answer 18 quintillion grains of rice.

To save you from looking it up, that is an 18 followed by 18 zeros!

Getting a handle of this eighth wonder in action is quintessential to understanding what drives returns in LTGG. Being openminded to grasp the changes that occur on a very large scale and over long periods of time, regardless of whether or not they happen to be in favour in the short term, is one of the most important traits we seek to preserve. Our experience teaches us that the payoffs of doing so, for those who are patient, are nothing short of extreme.

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<sup>7</sup> Unless already familiar with the puzzle.

**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

<b>GBP</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	-0.9	0.6	-1.5
1 Year	26.5	20.4	6.1
3 Year	-5.0	8.8	-13.8
5 Year	14.9	10.8	4.1
10 Year	17.2	12.0	5.2
Since Inception	14.0	10.3	3.7
<b>USD</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	5.1	6.7	-1.6
1 Year	39.1	32.3	6.7
3 Year	-5.1	8.6	-13.7
5 Year	16.9	12.7	4.2
10 Year	15.0	9.9	5.1
Since Inception	12.2	8.6	3.6
<b>EUR</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	0.9	2.5	-1.5
1 Year	31.9	25.6	6.4
3 Year	-3.9	10.0	-13.9
5 Year	16.3	12.2	4.1
10 Year	16.5	11.3	5.2
Since Inception	12.8	9.2	3.6
<b>CAD</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	3.8	5.4	-1.6
1 Year	38.9	32.2	6.7
3 Year	-3.1	11.0	-14.0
5 Year	17.3	13.2	4.2
10 Year	17.2	12.0	5.2
Since Inception	12.3	8.6	3.6
<b>AUD</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	1.2	2.7	-1.5
1 Year	29.4	23.1	6.2
3 Year	-3.8	10.1	-13.9
5 Year	16.2	12.1	4.1
10 Year	17.7	12.5	5.2
Since Inception	12.8	9.2	3.6

Annualised periods ended 30 September 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

<b>GBP</b>	<b>30/09/19- 30/09/20</b>	<b>30/09/20- 30/09/21</b>	<b>30/09/21- 30/09/22</b>	<b>30/09/22- 30/09/23</b>	<b>30/09/23- 30/09/24</b>
Composite Net (%)	93.4	20.7	-38.1	9.6	26.5
Benchmark (%)	5.8	22.7	-3.7	11.0	20.4
<b>USD</b>	<b>30/09/19- 30/09/20</b>	<b>30/09/20- 30/09/21</b>	<b>30/09/21- 30/09/22</b>	<b>30/09/22- 30/09/23</b>	<b>30/09/23- 30/09/24</b>
Composite Net (%)	102.9	25.9	-48.8	19.9	39.1
Benchmark (%)	11.0	28.0	-20.3	21.4	32.3
<b>EUR</b>	<b>30/09/19- 30/09/20</b>	<b>30/09/20- 30/09/21</b>	<b>30/09/21- 30/09/22</b>	<b>30/09/22- 30/09/23</b>	<b>30/09/23- 30/09/24</b>
Composite Net (%)	88.6	27.4	-39.4	10.9	31.9
Benchmark (%)	3.2	29.5	-5.7	12.3	25.6
<b>CAD</b>	<b>30/09/19- 30/09/20</b>	<b>30/09/20- 30/09/21</b>	<b>30/09/21- 30/09/22</b>	<b>30/09/22- 30/09/23</b>	<b>30/09/23- 30/09/24</b>
Composite Net (%)	104.7	19.4	-44.4	18.0	38.9
Benchmark (%)	12.0	21.4	-13.5	19.5	32.2
<b>AUD</b>	<b>30/09/19- 30/09/20</b>	<b>30/09/20- 30/09/21</b>	<b>30/09/21- 30/09/22</b>	<b>30/09/22- 30/09/23</b>	<b>30/09/23- 30/09/24</b>
Composite Net (%)	90.9	24.9	-42.5	19.4	29.4
Benchmark (%)	4.4	27.0	-10.4	21.0	23.1

Benchmark is MSCI ACWI Index.

Source: Revolution, MSCI.

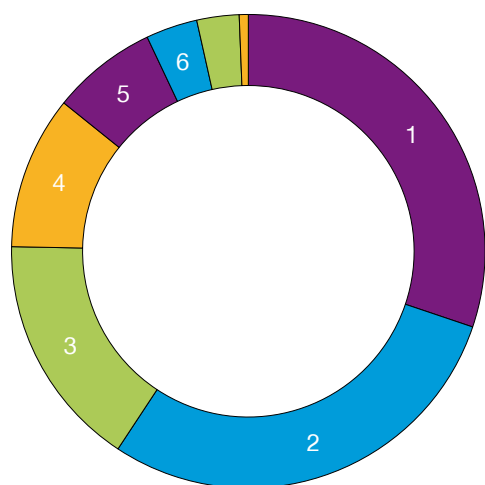
The LTGG composite is more concentrated than the MSCI ACWI Index.

**Top Ten Largest Holdings**

Stock Name	Description of Business	% of Portfolio
NVIDIA	Designer of Graphics Processing Units and accelerated computing technology	6.9
Amazon.com	E-commerce, computing infrastructure, streaming and more	6.3
Meituan	Chinese online services platform	4.9
PDD Holdings	Chinese e-commerce platform focused on social commerce	4.1
ASML	Semiconductor equipment manufacturer	4.0
The Trade Desk	Advertising platform	3.9
Intuitive Surgical	Surgical robots and consumables	3.9
Netflix	Streaming platform	3.4
Adyen	Online payments platform	3.4
MercadoLibre	Latin American e-commerce and fintech platform	3.3
<b>Total</b>		<b>44.1</b>

Figures may not sum due to rounding.

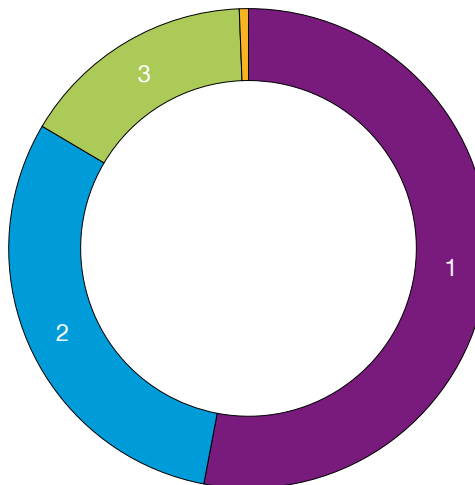
**Sector Weights**



	%
1 Consumer Discretionary	30.2
2 Information Technology	29.1
3 Communication Services	16.0
4 Health Care	10.5
5 Financials	7.2
6 Industrials	3.5
7 Consumer Staples	2.9
8 Cash	0.6

Figures may not sum due to rounding.

**Regional Weights**



	%
1 North America	53.0
2 Emerging Markets	30.5
3 Europe (ex UK)	15.9
4 Cash	0.6

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	5	Companies	2	Companies	None
Resolutions	30	Resolutions	2	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	ASML Holding N.V., Contemporary Amperex Technology Co., Limited, Coupang, Inc., Moncler S.p.A., Symbotic Inc.
Social	Contemporary Amperex Technology Co., Limited, DexCom, Inc., MercadoLibre, Inc., Samsara Inc.
Governance	ASML Holding N.V., Advanced Micro Devices, Inc., Atlassian Corporation, BioNTech SE, DexCom, Inc., Hermès International Societe en commandite par actions, Intuitive Surgical, Inc., Moderna, Inc., Moncler S.p.A., NVIDIA Corporation, Rivian Automotive, Inc., Samsara Inc.
Strategy	ASML Holding N.V., Datadog, Inc., DexCom, Inc., MercadoLibre, Inc., Moderna, Inc., Rivian Automotive, Inc., Tencent Holdings Limited

Company	Engagement Report
Advanced Micro Devices	<p>Objective: We engaged in conversations with chief executive officer (CEO) Lisa Su and chief financial officer Jean Hu to deepen our understanding of AMD's strategic initiatives in response to opportunities in the evolving semiconductor industry. We focused on AMD's operational performance, competitive edge and company culture.</p> <p>Discussion: AMD continues to gain market share from its leading competitors in CPU chips. However, CEO Lisa Su believes that AI accelerators present an even greater opportunity than the CPU market. Importantly, she emphasises that future computing will require both CPUs and accelerators, areas in which AMD has substantial experience. Additionally, AMD's accelerators are more cost-effective compared to the current NVIDIA standard.</p> <p>In a market where customers prefer not to rely on a single vendor, Su is confident that there will be room for multiple winners. She is not concerned about a potential near-term slowdown in demand, instead focusing on the significant long-term potential. Having been CEO since 2014, Su has ample experience navigating the cyclical nature of the industry. She also believes that aligning the company with the AI opportunity has been beneficial from a governance perspective, particularly in managing a workforce that has more than doubled during her tenure to over 20,000 employees.</p> <p>Outcome: This meeting helped us think about our investment thesis beyond the core CPU opportunity and consider AMD's long-term potential in the accelerator market. Su strikes us as an effective leader, having managed a very successful turnaround at AMD over the past decade. Her willingness to take long-term technology bets without immediate payoffs is further evident in the company's focus on the AI opportunity.</p>
ASML	<p>Objective: To gain insights into ASML's strategic direction under the new chief executive officer (CEO) Christophe Fouquet.</p> <p>Discussion: Our visit to ASML's Eindhoven facility provided a valuable opportunity to engage with the new CEO and other key executives. Christophe Fouquet was appointed CEO in April 2024 joining ASML in 2008. Our impression is that succession planning was well thought through, with Fouquet largely taking full control a year before the official handover date. As seamless as this transition has been, we do not underestimate the changes that Fouquet's appointment will bring. While the previous decade was characterised by the strong leadership of the former CEO and chief technology officer, Fouquet appears to be fostering a more distributed leadership approach across the company's 40,000+ employees. Given ASML's success over the past decade, we were intrigued to hear Fouquet openly discuss areas he aims to improve to ensure continued success. His humility was striking, exemplified by an anecdote where he requested a demotion upon joining ASML to first learn the ropes of lithography. Fouquet's strategic focus now is on adapting to individual customer requirements, acknowledging the diverse needs of major clients such as TSMC and Intel. The introduction of dedicated customer teams, led by the new Chief Customer Officer, Jim Koonmen, further demonstrates ASML's commitment to becoming even closer to its customers. Fouquet also emphasized the importance of ongoing cost reduction for clients, aiming to reduce the cost per exposure by 30% by the end of this decade.</p> <p>Outcome: The meeting reinforced our confidence in ASML's culture of long-termism, strategic direction and technological leadership. Though the company remains confident in long-term demand, the roadmap is more complex than in the past. Fouquet has a clear vision for what the company needs at this stage in its evolution. His ability to reduce costs for clients while at the same time boosting ASML's margins will likely define the success of Fouquet's era. We will continue to monitor.</p>

Company	Engagement Report
Atlassian Corporation	<p>Objective: To understand Atlassian's succession plans, following the departure of co-founder and co-CEO, Scott Farquhar.</p> <p>Discussion: We met with Mike Cannon-Brookes, Atlassian's co-founder and co-CEO, and separately with Anu Bharadwaj, Atlassian's President. Scott Farquhar's departure marks a critical juncture for Atlassian, and our discussions with Cannon-Brookes and Bharadwaj provided valuable insights into how the company is navigating this transition. Bharadwaj, who joined the company a decade ago, has played a key role in major strategic developments, such as expanding the focus from targeting IT departments to engaging other parts of the enterprise. She emphasised the amount of work Atlassian can still do to bring more enterprise customers to the cloud. Her dedication to the customer experience is evident in her commitment to speaking with two customers every week: one large enterprise and one small.</p> <p>Outcome: Our discussion with Bharadwaj shed light on the several levers that Atlassian is using to unlock future growth as its customers migrate to the cloud. Bharadwaj strikes us as an important and experienced figure in driving this next growth phase alongside Cannon-Brookes.</p>
CATL	<p>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.</p> <p>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.</p> <p>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.</p>
Coupang	<p>Objective: To encourage Coupang to report scope 1 and 2 emissions to better understand its climate exposure and material risks.</p> <p>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.</p> <p>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.</p> <p>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.</p>



Company	Engagement Report
Datadog	<p>Objective: To understand how co-founder and chief executive officer Olivier Pomel envisions artificial intelligence (AI) may impact Datadog's business.</p> <p>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.</p> <p>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.</p>
Dexcom	<p>Objective: To gather the chief executive officer and chief financial officer's perspectives on Dexcom's revised full-year revenue guidance and evaluate the strategic measures the company is implementing. We aimed to determine whether the current challenges are temporary or indicative of deeper structural issues within the competitive landscape and growth opportunities.</p> <p>Discussion: Dexcom's unexpected downgrade in full-year guidance resulted in a 40 per cent drawdown in share price in August 2024. According to the management team, several factors were responsible: the lack of visibility in sales, particularly in the Durable Medical Equipment (DME) distribution channel which has a data lag of four to six weeks; the strategic pivot towards the Pharmacy channel, which inadvertently strained relationships with DME partners; and a salesforce reorganisation. Dexcom's proactive measures to tackle these challenges include a commitment to channel agnosticism, co-branding initiatives with DME partners, and a realignment of their salesforce to better serve specialists, endocrinologists and primary care physicians.</p> <p>Outcome: We will continue to monitor and engage with the company as we still have questions about whether this is a transitory situation or a structural shift due to short-term execution issues, growing competition, or both.</p>

Company	Engagement Report
Rivian Automotive	<p><b>Objective:</b> Our visit to Rivian's headquarters and factory in Normal, Illinois, aimed at delving into the company's production ramp-up challenges, cost reduction strategies, and the implications of the joint venture (JV) with Volkswagen (VW) on our investment hypothesis, especially concerning the capital bridge leading to the R2 launch (its mid-sized SUV due 2026).</p> <p><b>Discussion:</b> The Rivian-VW JV is a cornerstone of Rivian's strategy, not merely for the immediate capital infusion but for its broader implications on Rivian's market positioning and technological edge. This partnership is pivotal in bridging the capital gap towards the R2 launch, which is expected to expand Rivian's Total Addressable Market (TAM) significantly. Rivian's innovative zonal network architecture, which simplifies the vehicle's electronic control units (ECUs) from over a hundred to just seven, is at the heart of this JV. This breakthrough not only streamlines production and reduces costs but also positions Rivian as a potential industry standard-setter. The JV with VW is anticipated to bring Rivian \$5bn, marking a crucial step in Rivian's journey towards financial sustainability and growth. It's not just about the capital; the JV is expected to reduce sourcing costs significantly and, in the future, potentially transform into a profit centre for Rivian. This partnership is seen as Rivian's "AWS moment," as it has a chance at revolutionising the automotive industry's approach to vehicle architecture and electronic systems. Beyond VW, Rivian plans to expand this technology to other automakers, further solidifying its position in the industry. The company's financial trajectory, bolstered by this JV, shows a clear path towards a positive gross profit in the near term, underpinned by solid vehicle deliveries and an expanding product lineup. The JV's success is critical, with regulatory approvals and technical evaluations from VW pending, but the optimism in Normal suggests a strong belief in the partnership's transformative potential.</p> <p><b>Outcome:</b> The engagement with Rivian underscored the strategic importance of the JV with VW, particularly in addressing the capital requirements leading up to the R2 launch. This partnership not only secures necessary funding but also leverages Rivian's technological advancements to potentially redefine the EV landscape. The visit reinforced our confidence in Rivian's ability to navigate its growth trajectory, with the JV serving as a critical component in expanding its market reach and enhancing its financial stability.</p>
Samsara	<p><b>Objective:</b> To gain further insights from the chief financial officer (CFO), Dominic Phillips, into why customers choose Samsara and how its culture plays a significant factor in its success.</p> <p><b>Discussion:</b> We met with Dominic Phillips, CFO, to delve into the factors behind Samsara's remarkable growth. According to Phillips, this growth is fuelled by market expansion as customers seek to digitise their physical operations. This, combined with the high return on investment that customers experience from adopting Samsara's products, exceptional customer service, technological innovation, and ease of product adoption, has significantly driven its success.</p> <p>Samsara's commitment to customer centricity is deeply embedded in the company's Operating Principles and exemplified by its founders. The CEO, for instance, has visited over 100 customers this year alone. Our discussion underscored the unwavering focus on customers at every level of the organisation.</p> <p><b>Outcome:</b> Samsara's strategic investments in technology and customer success, coupled with its ambitious culture and innovative product offerings, suggest a strong foundation for continued market expansion and competitive advantage. As the company continues to grow, there is a risk that Samsara's distinct quality of customer support could be diluted through rapid growth. However, our engagement provided reassurance that there was no evidence of such dilution to date, though we will continue to monitor going forward.</p>

Company	Engagement Report
Tencent	<p>Objective: To get insight from the company on gaming regulation trends and to learn the company's take on social value in gaming.</p> <p>Discussion: Tencent perceives the regulatory environment for gaming industry as generally supportive, drawing from recent policy documents and its own interactions with regulatory bodies. The supportive nature of these policies likely facilitates a more favourable environment for the development and distribution of video games. The company places a strong emphasis on innovation in gaming to foster new gameplay, content creation and the development of new technologies, which can benefit cross-sector applications and thus have broader implications. While we acknowledge the social headwinds which have been extensively discussed elsewhere, it was helpful to discuss the changing perspectives with a more positive focus on how game studios integrate social benefits into games, the protection of historic relics, promoting global cultural exchange, and advancing the use of AIGC (AI-generated content) tools.</p> <p>Outcome: The meeting provided additional insights into the company's strategic thinking on the regulatory environment and its social responsibility. It is helpful to learn that the social value of gaming extends beyond the gaming arena and that Tencent intends to contribute positively to society and national interests.</p>

There were no new purchases during the period.

### Complete Sales

Stock Name	Transaction Rationale
Affirm	We made a complete sale of Affirm. There remains a long runway for Buy Now, Pay Later (BNPL) financing to continue gaining share from US credit cards, and Affirm's attractive unit economics suggest margins should expand with scale. That said, we are not convinced that Affirm can establish a sustainable competitive advantage, which will be necessary to defend high returns. Contrary to our original investment thesis, the BNPL industry has become more competitive during our holding period. With high competition for capital in a concentrated portfolio, we sold this small holding we first purchased in 2021.
Kering	We have struggled to gain faith in growth rebounding. The appointment of fresh management to stabilise Gucci feels sensible but unlikely to be revolutionary. The brand faces an unenviable balance between retaining high net-worth clients, who were alienated by its previous creative director, while also speaking to a new generation of younger luxury consumers whose spend is rising fastest. Other brands in the portfolio remain sub-scale and capital allocation has atrophied in recent years. The impending retirement of Chairman and CEO François-Henri Pinault, who has architected the group's success over the past twenty years, heightens our concern around the group's future direction. We have therefore sold the shares and redeployed the capital into higher-conviction names.

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