

US Equity Quarterly Update

30 September 2024



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Product Overview

US Equity Growth is a long-term, concentrated, regional equity strategy investing in exceptional growth business in the USA. These businesses are owned for long enough that the advantages of their business models and strength of their cultures become the dominant drivers of their stock prices.

Risk Analysis

Key Statistics

Number of Holdings	47
Typical Number of Holdings	30-50
Active Share	80%*
Annual Turnover	21%

*Relative to S&P 500 Index. Source: Baillie Gifford & Co, S&P.

The portfolio is in a strong place and has delivered good recent returns

Operational progress is overwhelmingly positive

We're cautiously optimistic about the opportunities ahead as the companies emerge from a formative period in much better shape



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

The portfolio is in a good place, and its performance continues to recover. We've still got work to do, but given the efforts the companies have made over the last few years to adapt to the new environment (plus a bit of repositioning from us), it's easy to see why good performance should continue to kick on over the next five years.

Progress and Future Potential

The things the companies can control are going well. Following 2022's significant sell-off, we wrote that in a less-forgiving environment, resilience and adaptability combined with substantial growth opportunities would be key for future returns. We highlighted four areas that we believed gave the portfolio an advantage over the broader market: access to funding, control over pricing, control over costs, and growth underpinned by structural change.

These attributes appear to be bearing fruit. Portfolio returns have been good over the last 24 months. But unlike the broader market, which has been driven by a handful of companies (see our thoughts on market concentration later), most of the companies are delivering operationally and seeing their share prices rise as a result.

Some recent highlights include online food ordering and delivery company, Doordash, continuing to grow ahead of expectations while improving its take rate and expansion into categories such as groceries; education app Duolingo's accelerating user and subscription growth, and its clever AI integration enabling it to raise its growth prospects; and autonomous truck company Aurora's successful capital raise and significant progress with its operating partners as it approaches commercial launch of its self-driving trucks by the end of the year.

However, the most notable exception over the last year has been Moderna, primarily due to a lowered financial outlook, driven by declining COVID-19 vaccine sales and increased competition in the respiratory vaccine market. Consequently, it recently announced cost-cutting measures. Concerns about meeting profitability goals have made some in the market question the company's near-term growth prospects. Moderna's technology is excellent. Its execution needs to improve. But we remain cautiously optimistic about its long-term potential given its deep pipeline.

Overall, growth is strong, profitability continues to improve and the companies in the portfolio continue to reinvest at a rate several times that of the market. These characteristics are strong indicators for good future long-term returns.

Thankfully, the market still underestimates the portfolio's potential. For example, on a sales-based valuation (Enterprise Value/Sales), the portfolio's 5.2 times ratio is cheaper than both the Russell 1000 Growth index (6.0 times) and the Russell 3000 Growth index (5.5 times), despite the forward three-year sales estimates predicting the portfolio to grow 10-20% faster.

While it's not cheaper than the broader S&P 500 index on this basis (we wouldn't expect it to be), it's just under a 50% premium, below where we were at the end of 2019, yet predicted to grow at more than double the rate of the index over the next three years.

Of course, this is all based on consensus, which historically underestimates the long-term growth rates of exceptional growth companies. Take the example of Block, the fintech company we bought for the portfolio earlier this year. It's currently growing its gross profit at 20% year-over-year and is operating more efficiently than in the past. CEO Jack Dorsey is improving the organisational structure and has appointed Afterpay founder Nick Molnar as the lead of the new centralised sales function. The changes are intended to increase the focus on technology and design, foster more cross-business unit collaboration, and speed up innovation in the wake of AI. If Block can continue to grow even close to the current rate, it looks extremely good value. On consensus estimates, it's only trading on c.11 times 2026 earnings. The S&P 500's 2026 forecast PE is 18.4 times.

Similar examples exist across the portfolio, from companies as diverse as Meta, which owns Facebook and Instagram, to Yeti, which makes premium outdoor products.

In sum, we're excited by the companies' evident strength as they emerge from a formative period in much better shape. They are gathering pace again as they efficiently execute their opportunities, leveraging technological innovations such as AI where appropriate.

Tailwinds, Headwinds and Market Concentration

Shifting to the broader market environment – as ever, the things the companies can't control remain less clear.

Tailwinds include a favourable interest rate forecast in the US, marked by a significant Federal Reserve rate cut, and a reduced risk of recession, suggesting a potential "soft landing." Conversely, headwinds include the unpredictability of the US presidential election's impact on the stock market, global stock market volatility generally, and geopolitical tensions in the Middle East and Ukraine, all contributing to market uncertainty.

Despite these external factors, the portfolio's resilience and adaptability, characterised by financial strength, effective leadership, and sustainable competitive advantages, assure us that the companies we've selected are well-equipped to navigate both short-term fluctuations and long-term challenges to realise their long-run exceptional growth.

And then there's the concentration of the US stock market, which deserves some attention. The market's recent dynamics, heavily influenced by a few mega-cap tech stocks like NVIDIA, echo past instances of market concentration, which have come and gone again over the decades.

Here's some useful context: since 1957, the 10 largest stocks in the S&P 500 have underperformed an equal-weighted index of the remaining 490 stocks by 2.4% per year. But the last decade has seen a notable departure from that trend, with the largest 10 outperforming by a massive 4.9% per year on average. The danger in this environment is that investors head to the benchmark, for safety. We're wary of this approach. We think the best opportunities are likely to lie away from the most analysed stocks.

Not about mean reversion

This isn't an argument for mean reversion. Rather, the evolving landscape of the S&P 500's top echelons over the years showcases a fascinating evolution driven by change and technological advancements. Initially dominated by companies with modest growth, today's leaders—ushered in by revolutions in computing, internet, and mobile technologies—boast significantly higher growth rates. This technological evolution has seen the rise of giants from AT&T's era of fixed-line

communications to the current dominion of AI, exemplified by NVIDIA's meteoric rise from a modest c.\$25 billion midcap when we first invested in 2016, to a near \$3 trillion titan today.

Market concentration comes and goes. The real value then lies in identifying the next wave of mega caps over the coming decade, a task that demands a forward-looking analysis of how structural change will reshape the market's hierarchy.

What we've been doing

We've taken profits from the best-performing holding NVIDIA three times this year, most recently selling roughly 40% of the position several weeks before its earnings announcements in August. It remains a top ten position as we are still enthusiastic about its prospects of being at the leading edge of accelerated computing chip design. Our optimism is tempered by emerging competition at less intensive performance points and by the particularly strong profit margins that NVIDIA is currently earning. We are also mindful of the cyclicity of the semiconductor industry.

We have put this money to work in several new positions offering the potential for exceptional growth in underappreciated areas of the market. Lineage Logistics, the temperature-controlled logistics specialist, is one example. Its strategic acquisitions, expanding network and enhanced efficiency position it as a valuable supply chain partner. It offers services that are increasingly difficult for competitors to replicate. Demand is expected to grow significantly, driven by the increasing complexity and fragility of global supply chains, as well as the growing demand for cold storage to ensure the integrity of temperature-sensitive products during transit.

Another is The Ensign Group, a healthcare services company poised for growth through strategic acquisitions and operational improvements in the fragmented skilled nursing sector. Its strong, decentralised culture fosters leadership and best practices. The ageing population of people in the US, projected to rise from about 60 million today, to over 80 million by 2050 is also a significant tailwind.

Our experience owning heating, ventilation and air conditioning (HVAC) company Watsco over the last 12-plus years and counting, which has returned over 500% in share price terms since initial purchase, reminds us of the value such enduring

high-growth companies can deliver in the portfolio. We also added to Block and made small additions to self-driving truck company Aurora and EV maker Rivian, where notable milestones have been achieved.

Outlook

The inherent strengths of the portfolio's companies have begun driving a robust recovery and promising growth trajectory. Despite facing a complex market environment marked by both tailwinds, such as favourable interest rates, and headwinds, including geopolitical tensions, the portfolio has demonstrated resilience and adaptability. On top of this, most of the companies are beginning to thrive as shown by the operational excellence across the portfolio. Looking ahead, we remain cautiously optimistic, buoyed by the portfolio's potential to outperform, as evidenced by its valuation metrics and growth prospects compared to the concentrated market indices. Our focus remains on identifying and leveraging exceptional growth opportunities, navigating market volatility with a forward-looking approach, and maintaining our commitment to driving long-term value for our clients.

Performance Objective

2%+ p.a. above index over 5 years.

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	1.7	-0.2	1.9
1 Year	27.1	24.1	3.0
3 Year	-10.9	12.1	-23.0
5 Year	12.0	14.0	-2.0
10 Year	17.0	15.5	1.4
Since Inception	10.9	9.9	1.1
USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	7.9	5.9	2.1
1 Year	39.7	36.4	3.3
3 Year	-11.0	11.9	-22.9
5 Year	14.0	16.0	-2.0
10 Year	14.8	13.4	1.4
Since Inception	10.2	9.1	1.1
EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	3.7	1.7	2.0
1 Year	32.5	29.4	3.2
3 Year	-9.9	13.3	-23.2
5 Year	13.4	15.4	-2.0
10 Year	16.2	14.8	1.4
Since Inception	10.1	9.0	1.1
CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	6.6	4.5	2.0
1 Year	39.6	36.2	3.3
3 Year	-9.1	14.3	-23.4
5 Year	14.4	16.4	-2.0
10 Year	17.0	15.5	1.4
Since Inception	10.1	9.0	1.1
AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	3.9	1.9	2.0
1 Year	30.0	26.8	3.1
3 Year	-9.8	13.4	-23.2
5 Year	13.3	15.3	-2.0
10 Year	17.5	16.0	1.4
Since Inception	10.4	9.3	1.1

Annualised periods ended 30 September 2024. 3 Month & 1 Year figures are not annualised.

Inception date: 31 August 1997

Figures may not sum due to rounding.

Benchmark is S&P 500 Index.

Source: Revolution, S&P.

The US Equity composite is more concentrated than the S&P 500 Index.

Discrete Performance

GBP	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	100.0	24.7	-48.1	7.4	27.1
Benchmark (%)	9.8	24.6	2.1	11.2	24.1
USD	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	109.8	30.1	-57.1	17.5	39.7
Benchmark (%)	15.1	30.0	-15.5	21.6	36.4
EUR	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	95.1	31.6	-49.2	8.7	32.5
Benchmark (%)	7.1	31.5	0.0	12.5	29.4
CAD	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	111.7	23.3	-53.4	15.6	39.6
Benchmark (%)	16.2	23.3	-8.3	19.7	36.2
AUD	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	97.4	29.0	-51.8	17.0	30.0
Benchmark (%)	8.4	29.0	-5.0	21.2	26.8

Benchmark is S&P 500 Index.

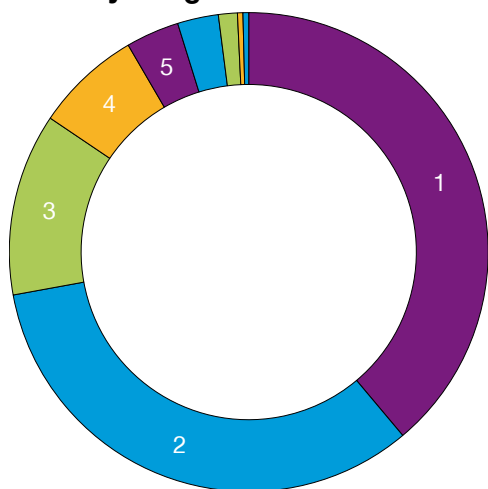
Source: Revolution, S&P.

The US Equity composite is more concentrated than the S&P 500 Index.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
The Trade Desk	Advertising platform	8.4
Amazon.com	E-commerce, computing infrastructure, streaming and more	7.7
Meta Platforms	Social media and advertising platform	6.1
Shopify	Cloud-based commerce platform provider	5.8
Netflix	Streaming platform	5.1
NVIDIA	Designer of Graphics Processing Units and accelerated computing technology	5.0
DoorDash	Provides restaurant food delivery services	4.9
Tesla Inc	Electric vehicles, autonomous driving technology and energy solutions	4.9
Cloudflare	Web infrastructure and cybersecurity provider	3.2
Duolingo	Designs and develops mobile learning platform	3.2
Total		54.3

Industry Weights



	%
1 Consumer Discretionary	38.9
2 Technology	33.3
3 Health Care	12.3
4 Industrials	7.2
5 Unclassified	3.6
6 Real Estate	2.8
7 Telecommunications	1.3
8 Financials	0.4
9 Cash	0.4

Figures may not sum due to rounding.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	5	Companies	1	Companies	1
Resolutions	29	Resolutions	1	Resolutions	1

Company Engagement

Engagement Type	Company
Environmental	Chewy, Inc.
Social	Samsara Inc.
Governance	Block, Inc., Chewy, Inc., Ginkgo Bioworks Holdings, Inc., Guardant Health, Inc., Meta Platforms, Inc., Moderna, Inc., NVIDIA Corporation, Recursion Pharmaceuticals, Inc., Rivian Automotive, Inc., Samsara Inc., Snowflake Inc.
Strategy	Block, Inc., Coursera, Inc., Datadog, Inc., Moderna, Inc., Rivian Automotive, Inc.

Company	Engagement Report
Block	<p>Objective: We had a one-to-one video call with Jack Dorsey, chief executive officer of fintech company Block, in August 2024. We wanted to explore further the transformative plans Dorsey has initiated at the company. The conversation aimed to assess how Dorsey's leadership and Block's organisational restructuring could enhance Block's agility and long-term profitability.</p> <p>Discussion: Jack Dorsey is orchestrating a pivotal transformation at Block, aiming to challenge industry titans by synergising its merchant and consumer services. The establishment of a centralised sales function under Nick Molnar is a notable shift, which aims to infuse Afterpay's high-performance sales culture into Block. This strategic move is anticipated to bolster customer retention and acquisition, particularly for its financial services platform, Square, as it scales.</p> <p>The organisational restructuring extends to a functional model across engineering and design, driven by the vision of integrating Square and Cash App to unlock significant value. Dorsey's commitment to leveraging AI and proprietary tools could also sharpen Block's competitive edge. Despite a cautious stance on the long-term impact of large language models (LLMs), Dorsey is optimistic about the potential of AI, especially federated learning, to democratise the tech landscape.</p> <p>The discussion also highlighted Cash App's initiatives to enhance direct deposit penetration, a critical component of Block's growth strategy. The overall business performance and strategic shifts indicate a promising trajectory for Block, potentially ahead of where our current Forward Looking Hypothesis suggests.</p> <p>Outcome: The engagement with Jack Dorsey offered insights into Block's strategic direction and operational enhancements. The dialogue underscored the potential of Block's organisational changes and technological investments to elevate its market position and profitability.</p>
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>

Company	Engagement Report
Rivian Automotive	<p>Objective: 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>Discussion: 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>Outcome: 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>Objective: 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>Discussion: 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>Outcome: 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>

Votes Cast in Favour

Company	Meeting Details	Resolution(s)	Voting Rationale
Snowflake Inc	Annual 07/02/24	4	We supported a shareholder resolution to declassify the board as we believe that annual election cycles at the company will allow for greater director accountability, and will allow shareholders to provide direct feedback through voting.
Companies	Voting Rationale		
Chewy, Doximity Inc, Ginkgo Bioworks Holdings Inc, Samsara, Snowflake Inc	We voted in favour of routine proposals at the aforementioned meeting(s).		

Votes Cast Against

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

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
Chewy	Annual 07/11/24	3	We abstained on the executive compensation due to concerns with the structure of the policy which we do not believe are aligned with shareholders' best interests.

Votes Withheld

We did not withhold on any resolutions during the period.

Votes Not Cast

Companies	Voting Rationale
Hashicorp Inc	We did not vote due to selling out of the stock.

New Purchases

Stock Name	Transaction Rationale
Lineage	We have taken a new holding in Lineage Logistics, which specialises in temperature-controlled transportation and storage. The cold storage sector is fragmented owing to its local nature and high set-up costs. Lineage acquires and integrates businesses, increasing their efficiency through automation and technology. As Lineage's network grows, so does its value to customers. Better transport, storage availability and technology enable Lineage to be a supply chain partner to its customers rather than just a warehouse supplier. This offering becomes increasingly difficult to replicate as it expands. Lineage can carry on its disciplined business acquisition for years, contributing to attractive revenue and profit growth.
SharkNinja	SharkNinja is a household appliance company known for manufacturing and selling popular vacuum cleaners, kitchen appliances, and other home products under the Shark and Ninja brand names. SharkNinja's culture and global R&D capability help it to rapidly innovate its products in response to consumer trends. Aided by this capability, the company aims to launch 20-25 truly new products per year. SharkNinja's integrated approach to product development creates a momentum that competitors may find increasingly difficult to replicate. We believe a mixture of product innovation, efficient supply chain, strong distributor relationships and innovative marketing gives SharkNinja the opportunity to grow substantially, and much more than the current share price implies.
The Ensign Group	The Ensign Group is a healthcare services company operating skilled nursing facilities, rehabilitative care services, home health, hospice, and assisted living services across the United States. Skilled nursing is fragmented and we think that Ensign will grow by steadily consolidating the sector, acquiring new operations and turning them around while continuing to drive operational improvements in existing homes. The company's strong, founder-initiated culture underpins its decentralized operating model, encouraging local leaders to grow and improve their clusters. The company's long-standing belief in nurturing leadership produces a steady stream of capable leaders to take on new acquisitions and transparency between facilities and clusters spreads best-practice. This effective culture both underwrites excellence at existing operations and facilitates the company taking on new ones. We think this could deliver double-digit revenue growth for several years with expanding margins via a combination of operating leverage and offering increasingly specialised services. These attractions look far from recognised in the share price.

Complete Sales

Stock Name	Transaction Rationale
10X Genomics	We held 10X Genomics with the view that it could support a step change in single-cell analysis, driving the next generation of gene sequencing. We have been disappointed by 10X's progress since our purchase. Sales of its single-cell analysis Chromium machine have stalled, and while consumables revenue remains appealing, customers view 10X tests as expensive for the value provided. Competition is intensifying, particularly in spatial analysis, an earlier stage area for 10X. The growth opportunity is exciting here, but we are not convinced 10X's offering is compelling enough to capture a sufficiently large part of this market. We have, therefore, decided to sell the holding to fund other portfolio ideas.

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