Baillie Gifford International Concentrated Growth SMA
Third Quarter 2024

About Baillie Gifford

Philosophy	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
Partnership	100% owned by 58 partners with average 20 years' service Ownership aligns our interests with those of our clients Enables us to take a thoughtful, long-term view in all that we do Stability, quality and consistency

Investment Proposition

International Concentrated Growth is a bottom-up equity strategy focused on exceptional international growth companies. It invests in businesses that are creating and benefiting from long-term structural changes in the economy and society. It holds 20-35 stocks drawn from developed and emerging international markets and has the latitude to invest up to 15% in US equities.

SMA Process

The portfolio will invest in the American Depositary Receipts (ADRs) of the underlying holdings in our pre-existing International Alpha Equity Strategy where available and sufficiently liquid. The portfolio manager then scales up the position sizes to reflect the more focused nature of the separately managed account.

Portfolio Construction

- 100% USD denominated securities (largely American Depository Receipts)
- Typically, 20-35 stock portfolio
- Current overlap with the International Concentrated Growth strategy is c.97%

International Concentrated Growth Portfolio Construction Group

Name	Years' Experience
Spencer Adair*	24
Lawrence Burns*	15
Paulina McPadden	11

*Partner

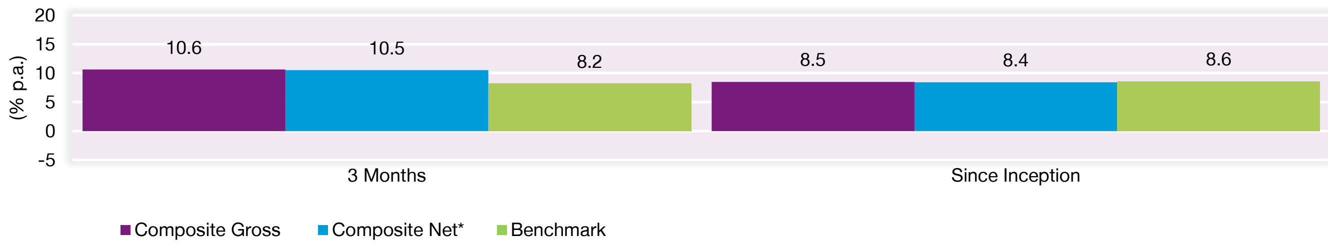
SMA Model Portfolio Facts

Launch Date	June 21, 2024
Client Assets	US$50,365,646
Benchmark	MSCI ACWI ex US Index
Current Number of Stocks	28
Active Share*	92
Style	Growth
Stocks (guideline range)	20-35

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

All investment strategies have the potential for profit and loss. Past performance is not a guide to future returns.

SMA Composite Performance as of September 30, 2024



Benchmark: MSCI ACWI ex US Index. Inception date: June 21, 2024. US Dollars. Not annualized. *Net of 3% fees.

Past performance is not a guide to future returns. The value of an investment may decline, and you could lose money. Changes in investment strategies, contributions or withdrawals may materially alter the performance, strategy and results of the portfolio. Material market or economic conditions will have an impact on investment results. This is not a guide to the performance of the SMA account. The composite is more concentrated than the MSCI ACWI ex US Index.

Reflecting on the last few years

"The world cannot be understood without numbers. But the world cannot be understood with numbers alone."

This quote from Hans Rosling's book Factfulness emphasises the importance of both quantitative and qualitative understanding. Numbers provide a clear, objective way to measure and analyse the world, but they don't tell the whole story. Context, human experience, and qualitative insights are also crucial to fully grasping complex realities.

During the Covid pandemic, much of the economy was forced online. Remote working shifted from being optional for some to compulsory for many. Businesses expedited their digital transformation plans to adapt to the new normal. This included enhancing their online presence, developing ecommerce initiatives, and utilising cloud-based services.

Several companies across the portfolio could be categorised as 'Covid beneficiaries'. European online fashion retailer Zalando's active user numbers grew 31 per cent to 42 million. **MercadoLibre's** gross merchandise volume (GMV) grew to $6.1bn over the first three months of 2021 a year-on-year gain of 79 per cent! There are other examples beyond these.

Financial reports provide a clear ex-post picture of a company's financial health, performance, and operations over a specific period. Those facts are obvious. However, understanding the long-term changes in consumer behaviour requires patience and a qualitative perspective. Were these businesses experiencing a permanent wholesale shift in customer preference? Or simply a pull-forward of demand and an acceleration in the maturity of their businesses? In each case, they remain substantially larger than their pre-pandemic state in terms of customers or revenues. However, it has taken time for their long-run economics and level of maturity to become clear.

Long-term holding MercadoLibre has continued to go from strength to strength. GMV has more than doubled since the first year of the pandemic and now exceeds $45bn annually. Revenues have sustained growth in the 40 per cent range, with operating profits up 5 fold since the end of 2021. Driven by these impressive fundamentals, MercadoLibre continues to make an outstanding contribution to the portfolio's returns.

Similar patterns can be seen at **Shopify**, the ecommerce software business, where we have increased conviction in its growth opportunity and have been adding to the holding.

However, in some cases, we misjudged the stickiness of some of the Covid-induced changes in consumptive behaviour and the implications for portfolio holdings. We would include Zalando in this category. With the perspective that only time can provide, we think it is now a more mature business than we previously perceived. It didn't go into reverse following the pandemic but it is also not as high-quality a business as we would have hoped. It no longer clears the hurdle of being able to deliver the exceptional returns we require from holdings. We have therefore sold the holding.

We will of course reflect, learn, and enhance our approach for the future. However, the nature of equity investing is inherently asymmetrical, and it's common for even the most successful companies to experience significant and prolonged declines in their share prices. This reality reinforces our commitment to maintaining patience within our investment process.

Patience distinguishes our approach in a financial market that often lacks it. The principle of holding on, rather than selling, if we believe the opportunity remains, is fundamental.

MercadoLibre serves as a prime illustration of this philosophy. We maintained our investment through various challenges, including competition from Amazon, a shift in business model leading to dramatically reduced margins with significant investments in logistics, the most severe recession in Brazil's history and the aftermath of the pandemic. Despite experiencing substantial decreases in value, including a 70 per cent post-pandemic drop in share price, MercadoLibre's stock has since tripled in value and made all-time highs during the quarter. This mirrors the experience with **Spotify** we discussed last quarter.

Performance drivers over the quarter

After a stock has performed well, it's sometimes tempting to think it was obvious. Hindsight bias, or the tendency to look back at an uncertain situation and think it was easily predictable, can be a powerful cognitive bias and something we strive to guard against. As the late Nobel laureate and one of the founding fathers of behavioural finance Daniel Kahneman put it, *'hindsight bias makes surprises vanish.'* It is seldom obvious at the time.

In the context of 'Covid beneficiaries', the holding in **Moderna** continues to detract from performance. Management recently downgraded financial guidance for this year as the respiratory vaccines market is proving more competitive than they initially expected. They also extended the timeline to reaching sustainable profitability. Patience is important.

We continue to believe Moderna's mRNA technology platform will produce valuable assets, not only in the respiratory vaccine arena but also in areas like oncology, which could be far more valuable than the market currently anticipates or is willing to ascribe value to today.

The holding in the Chinese social ecommerce platform **PDD** currently carries a high level of perceived uncertainty, or to borrow from Donald Rumsfeld has more '*known unknowns'* than other holdings. These fall into two broad categories: Risk of the Chinese authorities curtailing the domestic opportunity; and the geopolitical risk of having its international opportunity stymied. Before we took a holding in PDD for the portfolio, these risks were manifest in a persistent disconnect between its growth opportunities, the outstanding operational progress it is making, and its valuation. The gap widened over the quarter as the share price fell following oddly downbeat remarks from management during their quarterly earnings call regarding margin pressure and an increasingly competitive environment. Interpreting these comments is challenging particularly as we suspect the primary audience may not even be investors but instead the government. We found our own conversations with management reassuring. They spoke of wanting to invest in the opportunities that they are finding to grow the business. We continue to balance the risks associated with its investment case with the potential rewards on offer, maintaining a position of around 2 per cent in the portfolio.

Dutch lithography business **ASML** has been one of the most valuable investments over the last ten years of the International Concentrated Growth strategy. During that period, ASML has experienced four drawdowns of over 30 per cent and it is one of the main detractors from performance during the quarter. We firmly believe that we are in the midst of a silicon-based industrial revolution and at approximately 17 per cent, Semiconductors & Semiconductor Equipment remains the largest industry by weight in the portfolio. There have been moments when this position appeared unwise in the short term, but this industry has consistently offered a rich vein of investment opportunities and portfolio returns. We remain committed to pursuing these opportunities with enthusiasm and determination.

Returning to ASML, it is our expectation that the leading-edge lithography machines it produces will remain a critical component in advanced semiconductor manufacturing. Similarly, the competitive advantage **NVIDIA** has built in its powerful graphic processing units (GPUs), essential for generative AI model development and data centre operation is remarkable. However, during the quarter we have reduced the holding in both companies.

For ASML this reflected that though lithography remains important for progress in semiconductors we expect there to be a greater range of drivers going forward. For NVIDIA we are conscious that the ability to make a large multiple return from here is now challenging and that there could be an air pocket in demand in the coming years. Whilst we believe the long-term implications of generative AI are still potentially profound we are aware that the pathway for hardware companies could be bumpy in the years ahead. They both remain significant positions in the portfolio, but reduced weightings better reflect their potential to continue to deliver outlier returns from current levels.

We have used part of the proceeds from these reductions to further increase the holding in Taiwanese semiconductor foundry **TSMC**. We find the foundry business model particularly appealing at this juncture as they are positioned as technology-agnostic enablers of the world's increasing demand for compute. TSMC specifically should also be a net beneficiary of the current woes Intel is experiencing. In the battle for silicon sovereignty, Intel is too important an asset to the US government to be allowed to fail. Nevertheless, delays to capital expenditure plans due to budget constraints should allow TSMC to gain incremental market share.

Broadening horizons

The digitalisation of the global economy is a consistent theme in the portfolio, and we have added some new holdings to it during the quarter. However, our research is also steering us towards exciting new growth areas.

In healthcare we have taken a new holding in Danish biopharmaceutical company **Novo Nordisk** for the portfolio. Novo Nordisk has a long history of innovation and leadership in the healthcare sector, particularly in the treatment of chronic diseases such as diabetes and obesity.

Our analysis suggests that the potential for the obesity market lies far beyond current market expectations and could reach $350bn over the next 10 years, and up to $500bn beyond that, with Novo Nordisk set to take a sizeable share. The insatiable demand in the self-pay market for its weight loss product Wegovy is unprecedented in the history of chronic disease management and is set to continue. Novo Nordisk's strong clinical evidence and manufacturing capacity will result in a growing stream of cash flows that it can use to further advance its obesity pipeline, which is already the strongest in the industry. This includes developing drugs with improved efficacy, those that can be taken orally, or with new mechanisms of action, further expanding the market.

The funding has come from the sale of another Danish biopharmaceutical company Genmab as it faces increasing uncertainty as the patent expiry of its main revenue-generating asset Darzalex approaches.

Having monitored the South East Asian consumer internet company **SEA** for several years, we have been impressed with the management's ability to pivot the business in the face of a shifting digital commerce market as well as a more nascent opportunity in financial services. In many ways it has reminded us how MercadoLibre looked some years ago. Given our increased confidence in the investment case, we have added SEA to the portfolio.

We have also taken a position in **Nu Holdings** the Latin America neo bank. Nu is a founder-run digital bank operating in Brazil, Mexico and Colombia. After a decade of operation, the company has attracted over half of Brazil's adult population, mainly through organic customer acquisition. Its cost advantage over incumbent traditional banks is remarkable with an 85 per cent cost advantage over competitors allowing it to undercut fees while offering a superior customer experience. We think Nu can continue to gain market share in its current geographies with the option to expand into new geographies and adjacent business lines.

Rational Investing in an Irrational World

"As a possibilist, I see all this progress, and it fills me with conviction and hope that further progress is possible. This is not optimistic. It is having a clear and reasonable idea about how things are. It is having a worldview that is constructive and useful."

Rosling described himself as a '*possibilist*', a term he coined to distinguish his sanguine fact-based worldview from optimists who merely wished for progress. We, too, are possibilists. We deal in facts. We know that the companies we invest in provide products and services far superior to those who have gone before. The journey to success for the companies in the portfolio will take time and patience. Some are succeeding today; some will succeed tomorrow. This progress will lead to earnings and cashflows that surpass what the market currently anticipates and is willing to reward. Although a few may falter, we believe the majority will excel, some far beyond our wildest expectations.

Transactions from 01 July 2024 to 30 September 2024.

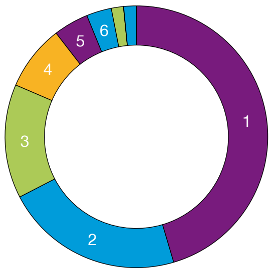
New Purchases

Stock Name	Transaction Rationale
Novo Nordisk	Novo Nordisk is a Danish pharmaceutical company and a global leader in metabolic diseases. We took a position as we believe the obesity market has the potential to be a $350bn opportunity over the next 10 years, with Novo Nordisk set to take a sizeable share. The insatiable demand in the self-pay market for Novo's drugs is unprecedented in the history of chronic diseases and is set to continue. Its strong clinical evidence and manufacturing capacity will result in a growing stream of cash flows that it can use to advance its obesity pipeline, which is already the strongest in the industry. This includes developing drugs with improved efficacy, those that can be taken orally or with new mechanisms of action, further expanding the market.
Nu Holdings	We have added Nu Holdings to the portfolio. Nu is a founder-run digital bank operating in Brazil, Mexico and Colombia. After a decade of operation, the company has attracted over half of Brazil's adult population, mainly through organic customer acquisition. This demonstrates a strong product-market fit replicated across an increasingly broad product portfolio, different market segments and multiple geographies. Nu has achieved 40% underlying ROE in its core Brazilian market while continuing to grow rapidly. Nu leverages its digital business model with an 85% cost advantage over incumbent banks to undercut fees while offering superior customer experience, commanding the highest net promoter score of any consumer company worldwide. We think Nu can continue to gain market share in its current geographies and products with the option to expand into new geographies and adjacent business lines.
Sea Limited ADR	We have been following SEA since its IPO, particularly the expansion of its Shopee ecommerce platform over the last five years. The company itself is a unique and powerful ensemble of different growth businesses, ranging from gaming to ecommerce to financial services, pulled together by a decentralised and extremely adaptable culture, led by an innovative founder, Forrest Li. Continued improvements in SEA's competitive position, and its increasing underlying profitability have given us confidence to add SEA to the portfolio.

Complete Sales

Stock Name	Transaction Rationale
Genmab ADR	We have sold the holding in Genmab, a Danish Biotechnology company with expertise in antibody engineering. Genmab has matured from an innovative Biotechnology company with a core technology platform to a fully-fledged biopharmaceutical business with a broad product portfolio and its own commercial capabilities. However, with a patent cliff looming for key product Darzalex, and the potential for group revenue to fall toward the end of the decade, we have decided to sell the position. We have reinvested the capital into two new holdings SEA and Nu Holdings.
Zalando ADR	Europe's largest online fashion marketplace, Zalando, saw its growth accelerate during the pandemic. Since then, growth has been muted. It is likely that European ecommerce is now more mature, while competition has increased from companies leveraging the Chinese supply chain, such as Shein and Temu, as well as new platforms, such as Vinted. Zalando has made progress post-pandemic, focusing on cost control and improving margins, but has yet to solve personalisation and discovery issues that could unlock growth. There is a concern that the quality of management has also declined following the departure of co-CEO Rubin Ritter a couple of years ago. Given this backdrop, we have sold the holding in Zalando to fund new ideas where the signs of progress and our conviction are greater.

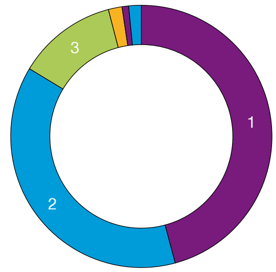
Sector Analysis (%)



1	Consumer Discretionary	45.4
2	Information Technology	22.0
3	Communication Services	14.1
4	Financials	8.1
5	Health Care	4.3
6	Consumer Staples	3.1
7	Industrials	1.5
8	Materials	0.0
9	Cash	1.5

Total may not sum due to rounding. The composition of the Fund's holdings is subject to change. Percentages are based on securities at market value.

Geographic Analysis (%)



1	Europe (ex UK)	45.8
2	Emerging Markets	37.8
3	North America	12.3
4	UK	1.7
5	Developed Asia Pacific	0.8
6	Cash	1.5

Total may not sum due to rounding. The composition of the Fund's holdings is subject to change. Percentages are based on securities at market value.

Top Ten Holdings

	Holdings	Fund %
1	MercadoLibre	14.0
2	Spotify	8.6
3	ASML	8.0
4	Ferrari	7.8
5	Adyen	6.5
6	NVIDIA	6.1
7	Meituan	4.9
8	TSMC	4.7
9	Hermès International	3.9
10	Delivery Hero	3.8

The composition of the Fund's holdings is subject to change. Percentages are based on securities at market value.

Portfolio Characteristics

Number of holdings	28
Number of countries	17
Number of sectors	8
Number of industries	18
Active Share	92%*

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

Asset Name	SMA Model Portfolio %
MercadoLibre	14.0
Spotify	8.6
ASML	8.0
Ferrari	7.8
Adyen	6.5
NVIDIA	6.1
Meituan	4.9
TSMC	4.7
Hermès International	3.9
Delivery Hero	3.8
Tencent	3.6
Coupang	3.3
Shopify	2.9
PDD Holdings	2.5
Kering	2.4
Sea Limited	1.9
Moderna	1.8
Ocado	1.7
Nu Holdings	1.6
Atlas Copco	1.5
Tesla Inc	1.5
L'Oréal	1.4
BioNTech	1.4
BYD Company	1.3
M3	0.8
Novo Nordisk	0.3
SolarEdge	0.2
Ginkgo Bioworks	0.0
Cash	1.5
Total	100.0

Total may not sum due to rounding. The composition of the SMA Model Portfolio's holdings is subject to change. Percentages are based on securities at market value.

Important Information and Fund Risks

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

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International Alpha/International Concentrated Growth SMA

Stock selection is likely to be the main driver of investment returns. Returns are unlikely to track the movements of the benchmark. The prices of growth stocks can be based largely on expectations of future earnings and can decline significantly in reaction to negative news. International investing involves special risks, which include changes in currency rates, foreign taxation and differences in auditing standards and securities regulations, political uncertainty and greater volatility. These risks are even greater when investing in emerging markets. Security prices in emerging markets can be significantly more volatile than in the more developed nations of the world, reflecting the greater uncertainties of investing in less established markets and economies.

Currency risk includes the risk that the foreign currencies in which a portfolio's investments are traded, in which a portfolio receives income, or in which a portfolio has taken a position, will decline in value relative to the U.S dollar.

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