

# US Alpha Q2 investment update

July 2024

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Investment manager Saad Malik and investment specialist Patrick Stapleton give an update on the US Alpha Strategy covering Q2 2024.

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**Your capital is at risk. Past performance is not a guide to future returns.**

**Patrick Stapleton (PS):** Hello and welcome to this US Alpha investment update. As a reminder, US Alpha is a relatively diversified portfolio of 60 to 90 US names. We look for long-term growth because that's what we believe drives stock market returns. And we seek those returns through a blend of growth styles, from disruptive businesses to more steadily growing entities and to cyclically growing businesses as well. So today we'll discuss performance, portfolio positioning, and some of the investment areas fuelling the investment team's enthusiasm at the moment. My name is Patrick Stapleton. I'm an investment specialist here at Baillie Gifford, and I'm joined today by one of the strategy's named decision makers, Saad Malik. So hello, Saad.

**Saad Malik (SM):** Hi, Patrick.

**PS:** It's been a period of changing expectations for US equity investors. What are your thoughts on the portfolio's performance given this context?

**SM:** You're right, Patrick. There's a lot of change taking place at the moment. The market seems to be focused on what's happening with interest rates, and the current expectation is that interest rates will be higher for longer. As growth investors, we are backing companies with a disproportionate amount of their cash flows in the future. And as a result, macro uncertainty can create some short-term headwinds. Recent performance has not been as strong as we would like. However, over the long term, we remain enthusiastic about the companies that we're investing in and progress here has been exceptional. One of the contributors to recent performance has been Globus Medical. This is a medical devices business that invests in the musculoskeletal structure and products that support the spine in particular. They support treatments ranging from various physical trauma to also degenerative diseases. The business has recently merged with one of its peers who is also a specialist in the sector. This is exciting for us because it deepens their economies of scale, making the business more efficient. But more importantly, it enhances their

commercial reach internationally and grows their best-in-class suite of products for patients and surgeons. The innovation here is good because it increases the standard of care.

There's another area where we've seen progress that is less appreciated by the market. This is for a company called DoorDash, the food delivery business which has been one of the detractors to recent performance. Progress here has also been strong. DoorDash has scaled its platform across multiple verticals, starting in restaurants and now moving to convenience as well as grocery. It's also grown its platform internationally, which meaningfully expands its addressable market. Meanwhile, the business continues to drive more growth efficiently with impressive unit economics coming through and growing profitability. This is a durable top-line and bottom-line grower for us, and we're enthusiastic about the long-term prospects for this business in our portfolio. So ultimately, we remain enthusiastic about the companies that we've invested in.

**PS:** That's really helpful. And turning to elections then, perhaps half of the world is going to the polls this year. How are you thinking about the portfolio's positioning in this environment?

**SM:** Yes, it's certainly interesting to observe the changing political environment all across the world. As it relates to elections, we find the impact can vary sector by sector. Some sectors are much more regulated than others, for instance. Also, there is the impact of trade policies, though this is not straightforward to predict. Ultimately what we think matters for performance in the portfolio over the long term is this core activity of innovation and entrepreneurship. It is individuals who are building exceptional businesses, who are solving important problems of all shapes and sizes for their customers. Importantly, exceptional growth businesses don't all look the same. As you mentioned, Patrick, there are at least three types that we look for.

The first are what we call disruptors. These are the fastest growing businesses in our fund. They include DoorDash, a company I just mentioned. Disruptors create a lot of change in an industry, and they benefit from that change in the process. Another type of company that we invest in, we call adapters. These tend to grow steadily through time. They compound value, often over multiple decades. They do so by constantly evolving their core value proposition to reflect a changing set of market requirements as well as customer needs. A great example here is Graco. This is a 98-year-old business which specializes in industrial parts, particularly nozzles. They're based out of the Midwest and the US. They create the nozzles that go at the end of sprayers for auto manufacturers spraying cars coming off the assembly line. Their nozzles are also used for coating pharmaceutical pills with slow-release compound and many other use cases. What's interesting about this business is their ability to continue to improve their core skill set while finding multiple end markets where they can make that skill set relevant, now counting in the dozens. Over its near 100-year history, it's also steadily compounded value for shareholders. The final type of business we look for are those that can grow through cyclical environments. We call them pilots for their ability to navigate turbulent environments, investing at times of great fear in the market while remaining patient and withholding capital investments at times of great excess and frothy valuation multiples. An example here is a company called Thermo Fisher. This is a medical devices business, which sells its

laboratory equipment to life science companies of all shapes and sciences all around the world. We consider it a royalty on science.

So this should give you a taste of how broad our portfolio is in terms of the growing businesses we invest in. Investing in a broad range of growing companies creates a portfolio that can navigate multiple and even political market environments. Importantly, the factors that will lead to DoorDash's success will be different from those of Graco or of Thermo Fisher. However, irrespective of the types of growth we invest in, all these businesses must at least 3x our initial investment over our 10-year holding period.

**PS:** That's some very useful context and interesting to hear about those different kinds of companies as well. So, let's turn our attention then to the future. What are you and the team most excited about at the moment?

**SM:** Yeah, so a key part of this job for me is on the ground research. It is spending time on the road, meeting with management teams, understanding the problems that they're solving, the cultures of their organizations. Just last week, two of my colleagues, Sasha Mayers, who's a co-portfolio manager, as well as Vittorio, who's one of the analysts on our team, met 17 companies on the road trip in the U.S. We're seeing opportunities emerge across sectors in this market. And what gets me really excited is the possibility to get in front of management teams, learn about their worldviews, the problems that they find energizing to solve, while the broad market may not appreciate their excellence.

So, an example recently is a company called SharkNinja, which we've invested a portion of our portfolio in. This is a company I visited at their offices just outside of Boston last year. They do various household appliances ranging from air fryers to hair dryers and vacuum cleaners. I was familiar with this brand ahead of time, but what really struck me about visiting their headquarters was just how unique and research-obsessed this organization was. They clearly care about R&D, which was noticeable through the prevalence of laboratories and engineers, prototypes strewn across their facilities.

Fast forward a few months, I met their CEO in London, Mark Barrocas. This meeting really helped me appreciate just how customer-obsessed he is as an individual and how he's infused that in the organization. He's also keen to introduce rapid innovation in an industry which has otherwise been quite sleepy and dull. What makes SharkNinja unique is its desire to be exceptional across multiple disparate capabilities. Most organizations are great at manufacturing or marketing. Some are great at customer service. Few look to be exceptional across all of these all at once. So, for instance, SharkNinja has engineers, 800 engineers, across three different time zones, ensuring this always on innovation cycle. They are world class at marketing. They are known to create viral ad campaigns across social media websites, which makes them much more attractive to younger cohorts that wouldn't be interested in these sorts of products.

Finally, they're also a data powerhouses, data science powerhouses. They are constantly crawling the internet to see the different feedback for their products and using that feedback to make sure customers are happy, but also constantly iterate products and make them better. This has created a high output organization that is much more competitive and attractive than its peers. And that's why we're excited to be investors in it.

So these are the sorts of opportunities that excite me, Patrick. We're on the road. We're getting to know management teams. We're excited to learn about the problems that they're solving. to learn about the problems that they're solving. We're looking for underappreciated excellence in all of these cases. Shark Ninja is just one example, though we're finding opportunities across a broad range of industries. So that makes being a U.S. investor quite exciting.

**PS:** Fantastic. Thank you very much for that. So, I hope you see from today that opportunities abound for discerning US growth investors. And we are very optimistic for the prospects for this collection of US growth businesses. Thank you very much for your time and join us next time. Goodbye.

## US Alpha

### Annual past performance to 30 June each year (net%)

	2020	2021	2022	2023	2024
US Alpha Composite	N/A	N/A	N/A	N/A	13.0
S&P 500 Index	N/A	N/A	N/A	N/A	24.6

### Annualised returns to 30 June 2024 (net%)

	1 year	5 years	10 years	Since inception
US Alpha Composite*	13.0	N/A	N/A	19.2
S&P 500 Index	24.6	N/A	N/A	28.5

\*Inception date: 31 December 2022.

Source: Baillie Gifford & Co and S&P. USD. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite.

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