

# International Growth Q3 investment update

October 2023

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**Investment specialist Paul Taylor and client relationship director Nick Thomas give an update on the International Growth Strategy covering Q3 2023.**

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

**Paul Taylor (PT):** Hello, and welcome to the Baillie Gifford International Growth strategy update for the third quarter of 2023. My name is Paul Taylor and I'm one of the investment specialists working on the strategy. And I'm joined today by Nick Thomas. Nick has been on the portfolio construction group of the strategy since its inception 20 years ago.

By way of a brief reminder, the International Growth strategy is about long-term active growth investment. We seek 50 or more of the most exceptional growth businesses in the international space that can either exhibit rapid or very durable growth over a 5-to-10-year holding period, which ultimately allows their competitive advantage to turn into investment returns.

Nick, thank you very much for joining us today. Looking back over the past year, there's been a lot going on in the world. Some of it challenging, some of it settled down, but some challenges do remain. How are we thinking about recent performance in that context?

**Nick Thomas (NT):** Thanks, Paul. Yes, the recent performance has not been good. I think you can trace it back, really, to the period of the pandemic and the following years.

The dominant factor has been just a compression in the valuation of long-term growth stocks as central banks have tried to fight against inflation by raising interest rates. It did feel early this year that this was coming to a conclusion, and that gave us a bit of respite.

The last quarter, there was perhaps a little more concern that rates would have to stay higher or be nudged up a little bit to get inflation really under control. That did seem to take some of the energy out of the valuations of long-term growth stocks in the third quarter. But we're taking a long-term view, as you mentioned in your introduction, and not overreacting to factors like that.

**PT:** Is there any stock specifics that you pull out from the quarter?

**NT:** Yes, there was one on top of that broader valuation point. One of our larger holdings, in Adyen, did have disappointing results during the quarter and the stock fell very sharply. So that did make quite a difference to returns.

Adyen's been, if you take a long-term view, been growing very nicely. It's a payment company, based in Amsterdam, using technology to disrupt what is a very bitty and outdated industry in a lot of ways, and moving payments around the world between merchants and consumers.

The last year or two the share price has been a bit bumpy. They've been investing very heavily for growth and perhaps the market might like to see them deliver a little bit more in margin. But they are being very long-term and we've been supporting them in that. But in the last quarter their results are a bit disappointing. More competitive pressure in the US market particularly, led them to miss forecasts and so the share price did fall very sharply.

**PT:** So do we think the big outlook, or the opportunity here, has changed for Adyen?

**NT:** I think we're still assessing that. We are a little bit concerned, but it's worth noting that the US market is probably not actually the most attractive bit of Adyen's business. It is the biggest payment market in the world, but it's also the most advanced and perhaps the one where that technology can make the least difference, if you like, their edge might not be as great.

But we were a little bit surprised by the extent to which customers were switching away from them to people with a slightly cheaper rate. So that was a bit of a concern. But the long-term market size, their competitive positioning, still looks very exciting. So we're still hopeful.

**PT:** And more broadly, I mean, how do we respond as investors when we come across situations like this?

**NT:** Yes, so as you mentioned, we're running a portfolio of very ambitious growth stocks with a 5-to-10-year horizon. We now know after our 20 years of running this strategy that there will often be quarters where they disappoint the market, and sometimes the reactions can be very sharp. So we've trained ourselves to be calm in those situations. Not to run out and sell shares the day of an earnings release, but to take our time, digest the information, try and triangulate it, talk to the company, get better insight, and try and take an unreactive, quick response to it.

**PT:** So we've seen examples of drawdowns like this before in other stocks?

**NT:** Oh, certainly, yes. Yes, very, very much so. It's quite interesting, actually, that we did this work which showed of our best long-term performers, quite a few of them have had several periods of short falls on their way to very good long-term performance. Companies like ASML or M3 jump out as examples of that.

So, at least that's a positive example of why holding on through short-term noise, short-term disappointment, can often be profitable.

**PT:** It's super interesting. Just thinking about other stocks, it's not been all bad news during the quarter. Are there any examples you can think of where the fundamentals have outshone a negative market backdrop?

**NT:** Yes, thankfully, yes. There are some of the, I guess you could say, in the difficult period that we've been in in the last few years, where there's been a lot of macro pressure and valuations have been weaker, the one thing that we've held fast to and has been our anchor, has been underlying innovation. The technological, industrial progress that's happening in lots of lots of different areas. We've seen that accelerating in quite a few areas, and we're really excited about that. And what you then try and find is companies that can benefit from that and grow quickly.

And there's been a couple of examples that have been really successful and had positive results in the quarter. So Argenx, which is a Belgian biotech company that we've held for some years now and then supported and helped them to raise more capital to chase their opportunity, they've had one very successful drug launch. And then we had some recent news that the same drug might be able to be used in other disease indications, which would obviously drastically widen its potential revenue. So that was good. The share price reacted very positively. That's a validation of why you should try and do this kind of thing.

And MercadoLibre is another stock, it's one of the biggest holdings in the portfolio, the Latin American ecommerce company. They've been executing very well on a complicated opportunity in Latin America in ecommerce, and are now showing greater signs that they can do the same thing in financial services. Which is another huge market, very underserved, very complex, lots of competitive barriers to entry. But in both banking and insurance, MercadoLibre seem to be making really good progress, and that's been rewarded as well.

**PT:** Interesting. Looking, or thinking, more long-term, you mentioned some of the technological advances and the way the world's changing, which is really how we try and expose the portfolio for the benefit of clients. What's exciting to us over the next 5 to 10 years?

**NT:** Yes, I think you can group them into maybe three mega themes. For us it's all about the companies. But to try and make sense of what's going on, the themes can be quite helpful. So, biotech is one that we mentioned. It's one where technological progress in several areas is converging and producing what we think is very important, very drastic change, whether it's gene sequencing, whether it's semiconductor advances, whether it's AI, they're all coming to bear in healthcare now.

We've been working really hard to build our exposure to that. Finding great companies to invest in, and that has carried on the portfolio. So that's one area that is extremely exciting.

Another one is the energy transition that is clearly happening as the world transitions away from fossil fuel as a primary energy source towards renewables. I would say that's been more difficult to express in the portfolio. There's probably fewer really great quality businesses there, but we have

found some. And we keep looking hard and it's clear that the progress is accelerating as capacity grows out, people learn how to use and make renewables more effectively. So, that's great.

And the third one is probably something that's a bit more familiar to clients. It's been a dominant feature in the portfolio for the last decade, really the digitisation of the whole economy. But that progress has not finished, and I think the advances in semiconductor technology that power it are something that a lot of our analytical time is spent understanding and checking that it's still going forward. We believe it really is, and holdings like ASML, or recent purchases like VAT Group, we think will benefit from that.

**PT:** Awesome. Nick, thank you very much for your time.

I hope viewers have found comments helpful, insightful. That just leaves me to say, thank you very much for your interest in the International Growth strategy and we look forward to speaking to you again in the future. Goodbye.

## International Growth

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

	2019	2020	2021	2022	2023
International Growth Composite	-3.2	53.7	16.2	-46.1	14.1
MSCI ACWI ex US*	-0.7	3.5	24.5	-24.8	21.0

### Annualised returns to 30 September 2023 (net%)

	1 year	5 years	10 years
International Growth Composite	14.1	1.2	4.6
MSCI ACWI ex US*	21.0	3.1	4.0

\*MSCI EAFE prior to 30/09/18

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

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