

# Global Income Growth Q3 investment update

October 2023

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**Investment manager Joanna Abudar and investment specialist Seb Petit give an update on the Global Income Growth and Responsible Global Equity Income strategies covering Q3 2023.**

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**Seb Petit (SP):** Hello and welcome to this quarterly investment update on our Baillie Gifford Global Income Growth strategies. My name is Seb Petit. I'm an investment specialist on the strategy and I'm delighted to be joined today by Joanna Abudar, one of the investment managers in the team.

As a reminder, our strategy seeks to invest in long-term compounders, which are well-established growth companies which we expect to deliver resilient earnings and dividend growth for the next decade or more.

Hi, Joanna.

**Joanna Abudar (JA):** Hi, Seb.

**SP:** So, in the first half of the year, the strategy returned broadly in line with the markets. And these global equity markets were driven by a handful of large cap tech companies. How has it been after that in the third quarter?

**JA:** Well, it's been quite a volatile quarter. Those large tech stocks have still been part of the driving force there, and not many of those pay dividends. But the ones that do, Apple and Microsoft, they're in our portfolio and we're really pleased with how they've been performing.

On a macro perspective, one of the other concerns in the market has been inflation. And also there's been a recent spike in the oil price, which has meant there's been a rally in energy stocks, and that's been a little bit of a headwind for the strategy because we don't invest in oil and gas companies because on a long-term view, we still fundamentally believe that they are on the wrong side of history as we move towards an electrifying world. So we're not too worried about that.

And overall, over the quarter, what that means is [that] global equity markets have been slightly up and our portfolio returns have been ever so slightly down.

**SP:** Okay. And if we look at the stock level, are there any big drivers, any big themes that explain the performance in the quarter?

**JA:** So there's not really one big theme across the portfolio. And actually, I'm quite encouraged by the fact that our top contributors are from a really diverse kind of geographic and sector base. Some of our top names have been Novo Nordisk, which had really exciting results coming out of one of its clinical trials, Carsales, which is our Australian car-selling platform, and ANTA Sports, which is a Chinese sportswear brand which is continuing to take market share there and has actually grown their earnings per share 30 per cent since last year. So there's still plenty to be excited about in that market.

A few of the stocks that have struggled have been Albemarle, which is a lithium miner. The temporary fluctuations in the lithium price have affected the stock price, too, but we're very sure about the long-term demand for lithium as we move into the green energy transition.

UPS has also struggled a little bit. The market reacted quite badly to the threat of strikes, but actually the union and the company have now come to a resolution that, as far as we can tell, is positive and has at the very least given UPS a kind of five-year through-sight into their wage costs for the next few years.

**SP:** Thank you. Now, Novo Nordisk, I've heard the name before. It has been a strong contributor in the strategy for a few years now. Briefly, in September, it became the most valuable European company. Its market cap is about the size of Denmark's GDP. Is it now time to sell?

**JA:** Absolutely not. Novo has been our biggest contributor, it's a top holding for us. They're just leading the way in diabetes and obesity treatment, and that's really exciting. Their select study that got the market so excited this quarter basically evidenced that there was a significant reduction in cardiovascular risk for patients on Wegovy, which is their drug for people living with overweight and obesity. That's a fantastic result for patients and for healthcare systems around the world. And I was actually in a session with the head of obesity for Novo Nordisk just the other week, and he was saying that they're very early on in their understanding of the disease and that the potential market for this drug could be really significant.

So Wegovy has launched in about five countries now, and the only constraint on the growth there is their production capacity, which, you know, they're ramping up as we speak as much as they can. Novo is phenomenal at investing in R&D, and so we were pretty confident in their ability to maintain their lead ahead of the pack as they discover more about the disease of obesity and bring more drugs to market.

We have trimmed it a few times. Because the market response was so strong, it began heading towards our 6 per cent holding limit. So we did take some earnings there and we redistributed that

through the portfolio, but we're very excited holders still of Novo Nordisk. We're excited about their future growth prospects and they're still our top holding.

**SP:** Thank you. So trimming Novo. Any other notable transaction in the quarter?

**JA:** We have one new name in the portfolio. That's Home Depot. They're an American home improvement retailer. We have a very high bar for retailers in the strategy because being a retailer is very, very difficult to be successful, and history teaches us that. But Home Depot is really in a class of its own. It's an American institution. They have an incredibly strong, long-tenured management team and a strong culture, you know, their employees are said to “bleed orange”. They're so committed and so customer-centric, and if you go on to their website, you'll see what I mean, there's so much orange!

I was recently at their Investor Day in New York, and a couple of the things that stood out to me were the fact that they've really taken huge swathes of the DIY market in the US, but they also have an opportunity in the professional tradesperson market. So this is people who use Home Depot for their day-to-day jobs, and they're really trying to provide products and services to become enmeshed in the lives of professional tradespeople. And that's a really exciting opportunity that they're starting in Texas and hopefully going to be rolling out through the US in the coming years.

**SP:** Thank you. So you alluded earlier on to rising interest rates around the world. And I know that the US mortgage rates are at a high of about 20 years, which doesn't sound [like] a great time to buy a stock or a company which is very linked to the housing market. What makes you confident that this is a good time to buy Home Depot?

**JA:** Yes, that's a really good point. And this is obviously something we considered. One of the quirks of the US housing market is actually that most American homeowners are on 25-year fixed mortgages, so those fluctuations in the interest rate don't really affect them as much as you might think. And actually, we think the market is really overestimating the risk that people are not going to continue spending money on their houses and home improvements over the next few years. So, we actually considered this to be an attractive buying opportunity to be able to begin to own a really high-quality company with [an] excellent management team and really healthy growth prospects.

**SP:** Thank you. Now I want to change tack a little bit and talk about ESG. Are there any examples of engagement or research projects that were done in the quarter?

**JA:** Yes, so one just recently was with Coloplast, that's our Danish medical company. They make ostomy, continence [and] wound care products for the chronic care sector. Increasingly, their new products are entering the digital realm.

They're trialling a new product that has sensors in it. And the sensors will tell you when you need to change your ostomy bag, for example, which is really exciting innovation for patients. But it comes with risks and challenges for Coloplast because you're talking about very sensitive data, patient data and how to manage that is quite different from what they've done before.

So Ben Hart, our ESG analyst, and myself had a call with the head of information security at Coloplast to talk to them about their process for managing this. And we were reassured they have quite a robust process, but they've also made the decision to start testing this product in Germany, which is a really highly regulated and very strict market around patient data and safety.

So they've really chosen to set the bar very high, which is obviously exactly what we want to hear as shareholders.

**SP:** Thank you. Now, I want to look ahead and again, going back to this theme of rising volatility, rising uncertainty in terms of the macroeconomic environment, what makes you confident that the portfolio is currently well positioned for such a world?

**JA:** It's a good question. I think there's a couple of things. So the portfolio is very diverse, we have a very broad range of companies in the portfolio. We invest in TSMC and their chips are not exposed to the same underlying factors as, you know, Coloplast chronic care products. But another thing I think is that we spend a lot of time on the team thinking about resilience.

We want to invest in companies that can grow and dependably pay dividends through the cycle. These companies tend to be very free cash flow generative. They have solid returns, and actually, being in a weaker economic environment kind of plays to their strengths in that way. Our holdings are also less than half as leveraged as in our index, and they have very strong balance sheets, so they're far less affected by the fluctuations in interest rates that we've seen.

And also, they perform relatively better than companies that have leveraged up and have lots of debt on the balance sheet and have maybe used some of the cheap financing of the recent years to fund their growth. They're much more resilient. So, you know, with all of that in mind, I think the portfolio position at the moment is very strong, we're not worried about the cycle and we're really, really pleased with our current holdings and we're still excited about new opportunities that we're finding in the market.

**SP:** Thank you for this update, Joanna. Three main takeaways from me. The first one is, global equity markets were slightly up in the quarter and the performance of the strategy was slightly down. Second takeaway is that Novo Nordisk remains an outstanding contributor to performance. And the third takeaway, and maybe the most important one, is that the quality growth bias and the resilience of the portfolio should position it well to navigate more choppy waters going forward.

Thank you for listening. And thank you, Joanna.

**JA:** Thanks, Seb.

## Global Income Growth (including Global Income Growth and Responsible Global Equity Income strategies)

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

	2019	2020	2021	2022	2023
Global Income Growth Composite	5.6	14.2	23.6	-18.2	19.6
Responsible Global Equity Income Composite*	-	14.6	24.0	-17.8	20.7
MSCI ACWI	1.9	11.0	28.0	-20.3	21.4

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

	1 year	5 years	10 years	Since inception*
Global Income Growth Composite	19.6	7.8	7.6	-
Responsible Global Equity Income Composite*	20.7	-	-	11.4
MSCI ACWI	21.4	7.0	8.1	10.5

\*Inception date: 31/12/2018

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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