

# Baillie Gifford™

## Baillie Gifford Overseas Fund Third Quarter 2023

### About Baillie Gifford

**Philosophy** Long-term investment horizon  
A growth bias  
Bottom-up portfolio construction  
High active share

**Partnership** 100% owned by 57 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

### Fund Objective

To produce capital growth over the long term by investing primarily in equities outside the U.S. and Canada. Performance will be measured against the MSCI EAFE Index.

### Investment Proposition

The Fund aims to represent the best international growth investments from across Baillie Gifford's research teams. The Fund is constructed on a bottom-up basis and aims to invest in companies that enjoy sustainable competitive advantages in their industries and which we believe will grow faster than the market average over time. We aim to take a genuinely long-term investment perspective with the resolve to ignore short-term market distractions. Baillie Gifford's culture and stable partnership structure is fundamental in allowing this philosophy to flourish.

### Fund Facts

Launch Date	March 31, 1998
Fund Size	C\$169.6m
Benchmark	MSCI EAFE Index
Current Active Share	89%*
Current Annual Turnover	14%
Style	Long term, bottom-up growth
Stocks (guideline range)	60-90
Current Number of Stocks	70

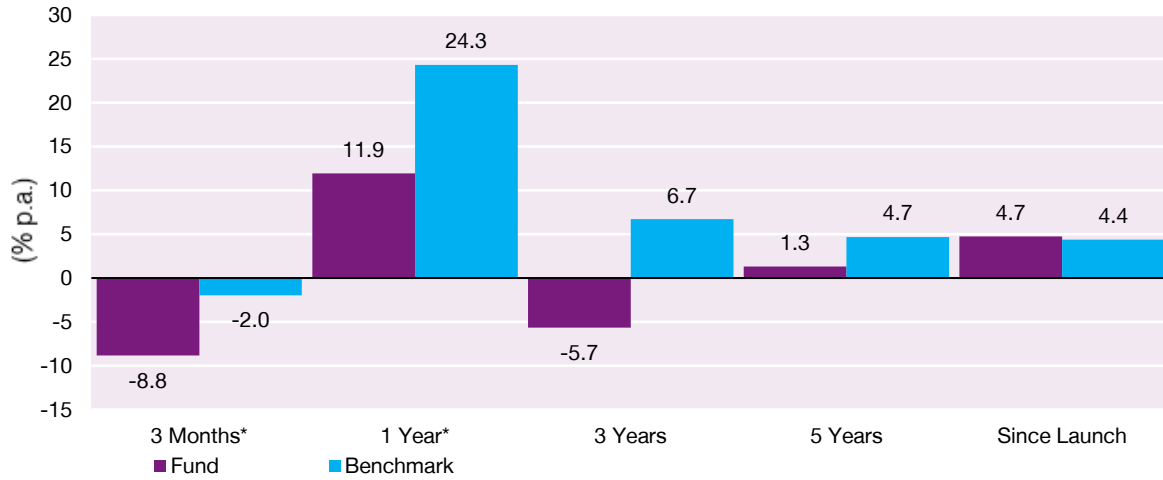
\*Relative to MSCI EAFE Index. Source: Baillie Gifford & Co, MSCI.

### International All Cap Portfolio Construction Group

Name	Job Title	Years' Experience
Joe Faraday	Investment Manager	21
Iain Campbell*	Investment Manager	19
Stephen Paice	Investment Manager	18
Milena Mileva*	Investment Manager	14
Sophie Earnshaw	Investment Manager	13

\*Partner

Periodic Performance



Discrete Performance

	09/30/18- 09/30/19	09/30/19- 09/30/20	09/30/20- 09/30/21	09/30/21- 09/30/22	09/30/22- 09/30/23
Fund (%)	1.1	25.9	11.2	-32.6	11.9
Benchmark (%)	1.6	1.8	19.8	-18.4	24.3

Source: Revolution, MSCI. As at September 30, 2023. Canadian dollars. Fund performance shown is based on the NAV calculated by CIBC Mellon Trust Company, 4pm ET. Benchmark calculated using close to close. \*Not annualized. Launch date: March 31, 1998.

All the returns presented above are gross of investment management fees. The results do not reflect the deduction of investment management fees. Fees are charged outside the fund.

## Stock Level Attribution

Quarter to September 30, 2023

### Top Five Contributors

Asset Name	Contribution (%)
United Overseas Bank	0.2
MercadoLibre	0.2
Cochlear	0.1
Rightmove	0.1
Weir	0.1

### Bottom Five Contributors

Asset Name	Contribution (%)
Adyen	-1.0
Richemont	-0.5
Shiseido	-0.4
Jeronimo Martins	-0.4
SMC	-0.4

One Year to September 30, 2023

### Top Five Contributors

Asset Name	Contribution (%)
Roche	0.6
Games Workshop Group	0.5
Spotify Technology	0.4
Nestle	0.4
MercadoLibre	0.4

### Bottom Five Contributors

Asset Name	Contribution (%)
Olympus	-1.1
Adyen	-1.0
Remy Cointreau	-0.9
Sartorius	-0.7
Meituan	-0.7

Five Years to September 30, 2023

### Top Five Contributors

Asset Name	Contribution (%)
Mettler-Toledo	1.6
TSMC	1.3
Nibe Industrier	1.2
ASML	1.1
Sartorius	0.8

### Bottom Five Contributors

Asset Name	Contribution (%)
Shiseido	-1.8
Hargreaves Lansdown	-1.8
Farfetch	-1.5
Novo Nordisk	-1.3
ASOS	-1.3

Source: Revolution, MSCI. Baillie Gifford Overseas Fund relative to MSCI EAFE Index.

All attribution figures are calculated gross of fees, relative to the Index from stock level up, based on closing prices.

Attribution is shown relative to the benchmark therefore not all stocks shown are held in the portfolio. See the List of Holdings section of this report for the stocks held.

## Market environment

The summer of 2023 has been another challenging period in terms of the investment backdrop. The market has continued to be fixated on the near-term - valuing surety - with a high inflationary and interest rate environment continuing to pose headwinds to longer-duration growth equities. We are mindful of the shifts at play, and our efforts remain focused on identifying growth opportunities across the investable universe for the next decade.

Focusing on Japan - there has been a market rotation towards (deep) value stocks. Expectations of rate hikes and the long-awaited return of inflation have led to a sharp rally in the financial sector. Ongoing improvements in the reform backdrop have also led to a rally in many lower-quality companies. Auto companies, utility businesses, shippers, and cyclical companies – all of which the Fund has no real exposure to – have seen sharp rises. We have been investing in Japan since the 1960s, and our experience tells us there will be periods where this does happen, but it does not remain. Ultimately, as with all markets, it is the fundamentals that drive stock prices. We cannot accurately predict when this reversal will occur, but we are confident that our approach offers the best likelihood of generating attractive long-term returns.

## Performance

Relative performance has continued to be weak in recent months. The macro backdrop and market environment have not been conducive to growth equities. Companies in the energy and financial sector (such as banks) have done well, but the Fund has limited exposure to these. There have been notable headwinds in Japan. Certain European holdings have also encountered a more challenging period. However, most holdings are executing well, and we remain upbeat on their long-term growth prospects.

At the stock level, negative contributors to relative performance included Adyen, Shiseido and Sysmex.

Adyen's shares fell sharply following its results. The global payments business saw its growth slowdown in the face of sterner United States ("US") market competition. We have spent time with the management team and are reappraising the potential addressable market. The company's management remains confident that Adyen offers customers long-term cost savings and aims to improve communication on this. The business is highly profitable, and we support the investments being made in future growth. The market is not currently recognising the strong growth delivered and the potential for further growth. We anticipate that such a divergence between operational progress and share price will narrow over time.

Shiseido, the skincare and cosmetics business, has seen its new Chief Executive Officer announce an 'urgent' restructuring following slower operational progress. We remain upbeat on the group's opportunity while accepting that Japanese inbound travel re-opening has taken longer than expected. In the longer

term, we see margin improvements and the skew towards the Asian segment of the business as being particularly attractive.

Shares in healthcare diagnostic group Sysmex fell on concerns that their Chinese business could see weaker-than-expected growth. There has been a slowdown, order delays, and the potential for changes in hospital procurement practices, plus a regulatory clampdown in China. This is expected to be a year-long campaign involving multi-government departments, with new rules expected in 2024. We remain upbeat on the long-term outlook. Sysmex has a strong global presence, high single-digit growth in its core business plus additional growth drivers including medical robots and a new Alzheimer's test under development.

Among the positive contributors this quarter were MercadoLibre, Cochlear and Z Holdings.

MercadoLibre, the Latin American e-commerce and fintech company, has continued to deliver strong growth with profits more than doubling. We have been particularly encouraged by the growth and profitability of the finance business. There is a new CFO who has been with the company for over a decade, having previously led the successful credit business. The growth runway for MercadoLibre remains vast.

Cochlear, the hearing implants business, also delivered strong operational performance, with mid-teens growth and profitability recovery. Its recently launched Nucleus 8 sound processor is set to stimulate demand for implant systems and sound processor upgrades.

Z Holdings is a Japanese internet group. Operational progress has been encouraging with profitability improving. It has an interesting mix of businesses spanning media, messaging, e-commerce and payments, which is well-positioned for future growth. The most exciting of these is its payments business, PayPay, where the disruption of the Japanese payments industry presents a huge opportunity.

## Notable transactions

There have been several new purchases in the past quarter. One is the industrial gases company, Air Liquide, which is a good example of a longer-duration, quality, resilient, durable growth companies we have bought more recently. Other new purchases include Soitec and Tokyo Electron, both semiconductor businesses, and Hong Kong Exchange.

Complete sales have included heat pump business, NIBE, and baby products company, Pigeon, on a reappraisal of growth rates. We also sold emerging market holdings Meituan, an online marketplace, and LONGI, a solar manufacturer.

Transactions from 01 July 2023 to 30 September 2023.

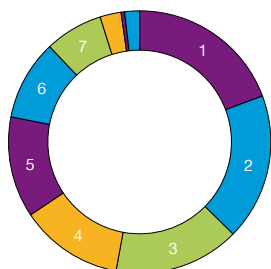
### New Purchases

Stock Name	Transaction Rationale
Air Liquide	We took a new holding in Air Liquide, a global supplier of industrial gases. This French-listed business is one of three large players that provide an essential input for industrial companies. It has captive customers, concentrated local market shares, and utility-like demand. We think Air Liquide can deliver double-digit total returns for the next few years from a combination of organic top-line growth, margin improvement and dividends. Beyond that, there is scope for growth to accelerate as decarbonisation and reshoring increase demand for industrial gases. The downside is limited due to the cash flow generative nature of the business and long-term take or pay contracts.
Hong Kong Exchanges & Clearing	Hong Kong Exchanges and Clearing owns and operates the stock exchange, futures exchange and their related clearing houses in Hong Kong. Trading volumes in the cash and derivatives markets should continue to increase over the long term, driven by growth in Chinese financial markets. In the medium term, we expect this to be accelerated by the relisting of Chinese stocks from the US. The company has a strong edge based on its near monopoly position in the market. We believe the long-term prospects are not factored into the current share price and have taken a holding.
Soitec	We took a new holding in Soitec. We like its strong position in engineered semiconductor substrates, which offer valuable power and performance advantages that encourage their substitution for plain silicon. We think that usage of these will grow as a percentage of overall semiconductors as they expand content in smartphones, IoT devices and electric vehicles. Currently, the mobile market is the most significant for Soitec and is in a downturn; however, we expect this to recover in the short term with longer-term growth driven by expansion into new end markets.
Tokyo Electron	Tokyo Electron is a Japanese manufacturer of semiconductor production equipment. It specialises in the areas of semiconductor etching, deposition and wafer cleaning, where it has maintained high market share positions for many years. We believe that a combination of long-term underlying growth in the semiconductor market (driven by demand from increasingly broad end markets for chips) and Tokyo Electron's strong market positions will result in many years of profitable, cash-generative growth. This year, the semiconductor production equipment market has been in a downcycle, and profitability for Tokyo Electron has temporarily weakened. We believe this provides an attractive entry point to buy a holding in this long-term growth business.

## Complete Sales

Stock Name	Transaction Rationale
LONGi Green Energy Technology	The investment case for LONGi was made in the belief that they had significant technological and scale advantages over other players in the industry and that they would be smart enough to trade these advantages for further scale by keeping prices low to encourage further industry consolidation and accelerate solar adoption. This belief has been increasingly challenged this year: the whole industry has been improving as it scales, and LONGi's relative edge is no longer as clear-cut as we once thought. While the company remains (we think) best in class, the industry is probably still over-earning, and the battle of attrition may only have just begun. We therefore decided to sell the position.
Meituan	Meituan is a Chinese on-demand food delivery platform. The original investment case was based on the company's potential to be a leading membership-based ecosystem for both food delivery and local services. While they are the dominant player in food delivery, the Chinese online platform market remains highly competitive. We think there will be a tough battle for the grocery delivery market, which may consume time and capital. Within the delivery market, we remain concerned about the overhang of regulation, which may negatively impact the margin potential for Meituan. We, therefore, decided to sell the remaining holding to fund ideas elsewhere.
Nibe Industrier	We have sold our position in Swedish heat pump manufacturer Nibe. The outlook for adopting heat pumps is favourable owing to growing awareness of the need to transition heating systems away from fossil fuels and the supportive regulatory backdrop in Europe. However, despite Nibe's admirable track record and the runway for growth, our analysis points towards a more competitive environment. We feel that at the current valuation, it will be more challenging for the company to meet our return hurdle from here.
Pigeon	Pigeon is a Japanese baby-care product manufacturer with a very high market share in certain categories and geographies (including China). We admire the business and regard it as having a strong competitive position. However, growth has slowed and the company is not expecting a recovery to its former levels. With competition for capital in the portfolio high, we have sold the holding to invest in new ideas that we believe offer more attractive growth prospects.
Zalando	Zalando is a leading European multi-brand fashion platform. We have growing concerns about competition in European online apparel from new online entrants, brand.com businesses and other retailers upping their online offerings. While the company is focused on improving margins, we are unsure what the ultimate profitability of the platform will be. We have sold the holding to fund new ideas where we have higher conviction.

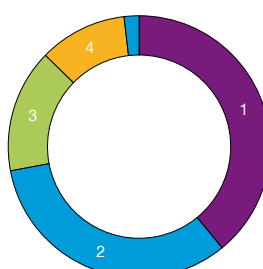
**Sector Analysis (%)**



1	Industrials	19.3
2	Consumer Discretionary	18.1
3	Financials	15.5
4	Consumer Staples	12.7
5	Information Technology	12.4
6	Health Care	9.9
7	Communication Services	7.2
8	Materials	2.6
9	Energy	0.4
10	Cash	1.8

Total may not sum due to rounding.

**Geographic Analysis (%)**



1	Europe (ex UK)	39.1
2	Developed Asia Pacific	33.0
3	UK	15.3
4	Emerging Markets	10.9
5	Cash	1.8

Total may not sum due to rounding.

**Top Ten Holdings**

Holdings	Fund %	
1	Atlas Copco	3.3
2	United Overseas Bank	3.1
3	ASML	2.8
4	TSMC	2.7
5	Sartorius Group	2.6
6	AIA	2.5
7	Auto Trader	2.5
8	SMC	2.5
9	Investor	2.4
10	Jeronimo Martins	2.4

**Portfolio Characteristics**

Number of holdings	70
Number of countries	19
Number of sectors	9
Number of industries	29
Active Share	89%*
Annual Turnover	14%

\*Relative to MSCI EAFE Index. Source: Baillie Gifford & Co, MSCI.

Voting Activity

Votes Cast in Favour	Votes Cast Against	Votes Abstained/Withheld
Companies 17	Companies 6	Companies 1
Resolutions 250	Resolutions 17	Resolutions 1

Governance continues to be a key area of focus, with management and remuneration package changes at a number of holdings

Sustainability has been a topic of discussion: for many companies, reducing emission levels is an important component of their long-term edge

Treating all stakeholders fairly is a priority for companies, balancing growth, investment, culture, margin, and opportunity

Company Engagement

Engagement Type	Company
Environmental	Adyen N.V., Ashtead Group plc, Contemporary Amperex Technology Co., Limited, DSV A/S, Prosus N.V.
Social	Adyen N.V.
Governance	Adyen N.V., Alibaba Group Holding Limited, Auto Trader Group plc, Compagnie Financière Richemont SA, Coupang, Inc., DSV A/S, Hargreaves Lansdown plc, Investor AB (publ), Kao Corporation, Kering SA, Mettler-Toledo International Inc., Recruit Holdings Co., Ltd., SMC Corporation, Sartorius Aktiengesellschaft, Soitec SA, Taiwan Semiconductor Manufacturing Company Limited, Techtronic Industries Company Limited, Xero Limited



Asset Name	Fund %
Atlas Copco	3.3
United Overseas Bank	3.1
ASML	2.8
TSMC	2.7
Sartorius Group	2.6
AIA	2.5
Auto Trader	2.5
SMC	2.5
Investor	2.4
Jeronimo Martins	2.4
MercadoLibre	2.3
Mettler-Toledo	2.1
Shiseido	2.1
Richemont	2.0
Rightmove	1.9
LVMH	1.8
Unicharm	1.8
Prosus	1.8
AB InBev	1.7
Weir	1.6
Olympus	1.6
Techtronic Industries	1.5
Xero	1.5
DENSO	1.5
Murata Manufacturing	1.5
Ashtead	1.5
EXOR	1.5
Air Liquide	1.5
Games Workshop	1.4
Spotify	1.4
Remy Cointreau	1.4
Keyence	1.4
Experian	1.3
Epiroc	1.3
Lonza	1.3
DSV	1.2
Systemex	1.2
Shimano	1.2
IMCD	1.2
Cosmos Pharmaceutical	1.2
Hong Kong Exchanges & Clearing	1.2
adidas	1.2
Tokyo Electron	1.2
Intertek	1.1
Nippon Paint	1.1
Ping An Insurance	1.1

Asset Name	Fund %
Cochlear	1.1
Raia Drogasil	1.0
Burberry	1.0
Recruit Holdings	1.0
Alibaba	1.0
Adyen	1.0
Hargreaves Lansdown	0.9
Nidec Corporation	0.9
Kering	0.9
Wise	0.9
Nemetschek	0.9
Trainline	0.8
HDFC Bank	0.8
CATL	0.7
Kao	0.7
Z Holdings	0.7
Coupang	0.7
Ubisoft Entertainment	0.6
Soitec	0.5
Sugi Holdings	0.5
Reliance Industries	0.4
AUTO1	0.4
Farfetch	0.2
Jio Financial Services Limited	0.0
Cash	1.8
<b>Total</b>	<b>100.0</b>

Total may not sum due to rounding.

Please note the fund information contained within this document is proprietary information and should be maintained as such and not disseminated. The content is intended for information purposes only and should not be disclosed to other third parties or used for the purposes of market timing or seeking to gain an unfair advantage.

## Additional Fund Information

The Fund is a sub-fund of Baillie Gifford Funds Canada. Its Investment Manager and Distributor is Baillie Gifford Overseas Limited.

This factsheet does not provide you with all the facts that you need to make an informed decision about investing in the Fund. Further details of the risks associated with investing in the Fund can be found in the Offering Memorandum, copies of which are available at [bailliegifford.com](http://bailliegifford.com)

## Important Information and Risk Factors

This bulletin is solely for the use of professional investors and should not be relied upon by any other person. It is not intended for use by retail clients. Nothing in the document should be construed as advice and it is therefore not a recommendation to buy or sell shares.

Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK clients. Both are authorized and regulated by the Financial Conduct Authority. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec. 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.

All investment funds have the potential for profit and loss.

All information is sourced from Baillie Gifford & Co. All amounts are in Canadian dollars unless otherwise stated.

## Fees

### Overseas Fund Management Fees

0.52% first C\$150m

0.40% next C\$450m

0.30% next C\$900m

0.25% thereafter

Investors are charged a fee for investment management services based on the above scale. This fee is payable directly to the manager.

Operating expenses are 0.08%, based on the actual expenses for the fiscal year to December 31, 2022. The Funds operating expenses are all expenses the Fund incurs in its daily operations excluding transaction fees.

## Dealing Information

Settlement	T+2
Liquidity and Valuation	Daily
Eligibility	Permitted clients*
Dealing cut-off time	4pm Eastern
Custodian and Record Keeper	CIBC

\*As defined in Multilateral Instrument 32-102 Registration Exemptions for Non-Resident Investment Managers.

## Legal Notices

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