

Global Income Growth Quarterly Update

30 September 2024



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All investment strategies have the potential for profit and loss.

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Product Overview

Global Income Growth is a long-term global equity strategy that aims to deliver both a dependable income stream which grows at a rate above inflation and real capital growth, together combining to provide a total return ahead of equity markets.

Risk Analysis

Key Statistics

Number of Holdings	57
Typical Number of Holdings	50-80
Active Share	86%*
Rolling One Year Turnover	17%

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

Broadly flat headline equity returns mask a period of higher volatility

A well-diversified portfolio of resilient companies is critical in a more volatile environment

The team has been on the road to meet existing holdings and hunt for new ideas



Baillie Gifford Key Facts

Assets under management and advice	US\$293.0bn
Number of clients	633
Number of employees	1708
Number of investment professionals	376

“Geopolitical tensions are high and new trade barriers are being erected, but global equity markets volatility has been unusually low since Q4 2023. Whatever the reasons, it would be unwise to assume that we have just entered a new era of low volatility forever. “

Thus ended our last quarterly letter, when a gauge of equity market volatility - the “VIX” index- was around 12. The so-called “fear index” jumped to 38 at the beginning of August, a level last seen in the pandemic. This is not a call to stockpile tinned food and torches, but a reminder that under a deceptively calm surface, global equity markets are not immune to convulsions which are impossible to forecast.

It only took relatively weak US economic data and a decision in Japan to trigger market turmoil. Early August, the Bank of Japan told financial markets that interest rates were on their way to 0.5%. Whilst not a complete surprise as inflation even reached Japan, this was quite a statement for the Central Bank, which has been keeping official rates negative for so long. It led to fears that the vast carry trade flows (borrowing at low cost in yen to invest in higher-yielding currencies like the Australian dollar) were about to reverse. Cue a rapid appreciation of the Japanese yen and the largest one-day fall in Japanese equities in nearly 40 years. Within the week, after the fastest U-turn in Central Bank announcements in history, the markets had recovered half their losses. And all of their losses by the end of the month.

On the macro-economic front, the big event this quarter was the large interest rates cut (50bp) by the US Federal Reserve (“Fed”) in September. Whilst a cut was telegraphed well in advance, its size was a surprise. The equity market celebrated what is perceived as the beginning of a journey towards the promised land of lower interest rates and accelerating growth.

In that respect, investors’ memory is short: expect the Fed to be praised for beating inflation down rather than being blamed for letting it happen under their watch in the first place. And with that cut, a 50-year-old investment belief (maybe) no longer holds true: absent a recession in the next few months, an inverted yield curve (the ten-year bond yield below the 3-month Treasury bill yield) will have sent the wrong signal over the past few months.

Multiple indicators show that the Chinese economy is slowing down. And in a curious case of disappearing statistics, the number of indicators is falling, reducing visibility and denting confidence. The real estate sector remains weak and since it is the main asset of Chinese households, that weakness is leading consumers to save more and consume less. The Chinese Government, and many companies, will hope that the measures announced late September will be able to break that vicious circle. Chinese equity markets certainly celebrated, enjoying their best week since 2008.

But it is not only China slowing down and removing statistics. Germany also stopped publishing some key economic data and is another important economy running out of steam. That will be a drag on the whole EU activity. A landmark report on required reforms for the EU, published by Mario Draghi in September, was politely acknowledged but is unlikely to be put into action.

In summary, quite a lot has happened over the past three months, but our clients couldn’t tell just by looking at global equity markets.

Performance

Global equity markets and the portfolio returns were broadly unchanged (in GBP) in the quarter, with the early August scare fully erased by the end of September.

For the portfolio, this was a slightly unusual quarter: Novo Nordisk tops the list of detractors whilst the absence of NVIDIA and Alphabet is, for once, a boost to relative performance. We don’t pretend that the quarter marks a decisive turn for technology stocks, but it is a reminder that AI is not a one-way boulevard to performance heaven.

Other significant contributors to relative performance this quarter are the more cyclical companies: Swiss asset manager Partners Group, US distributor Fastenal and Chinese sportswear company Anta Sports.

Swiss alternative asset manager Partners Group published half-year results that were slightly disappointing but a solid guidance and a distribution partnership with Blackrock announced at the end September boosted the share price.

Results from US distributor Fastenal showed a small decline in earnings but also market share gains and good cost control. Fastenal is one of the best-run distribution businesses in the US, if not the world, and whilst subject to the economic cycle

and industrial activity, it is structurally gaining share thanks to its strong distribution platform and focus on customer. Chinese sportswear company Anta Sports benefited from the surge in Chinese equities triggered by the Government stimulus at the very end of the quarter.

On the other side of the ledger, as mentioned, Novo Nordisk was the main drag on relative performance this quarter. Partly as investors took profit after another set of strong results (Q2 sales were up 25% vs. last year), partly due to some disappointing news about a next-generation obesity drug currently in trial. We know that the road to curing obesity will be a bumpy one and we remain confident that Novo's deep expertise and world-leading manufacturing capabilities will keep them in a leading position in a gigantic market.

Other detractors include the French employee benefits company Edenred as investors worry about potential change in regulation, US machine vision company Cognex and UK mixers company Fever Tree, both on disappointing results.

Since the beginning of 2024, absolute performance has been solid (~+6% in GBP) but lagged global equity indices (~+13%). The gap opened in the first quarter, when investors rushed to anything AI and the more cyclical names. Whilst uncomfortable, this is not a complete surprise as our portfolio of quality long-term compounders has relatively low sensitivity to equity markets. What is a headwind in strong equity markets provides resilience in more challenging market environments.

Looking at that period, two key factors explain the underperformance. The first one is the disproportionate impact of one stock: NVIDIA. Alone, it explains more than 37% of the gap. The other headwind has been the strong performance of cyclical sectors. Sectors like semiconductors, media, banks and steel or car manufacturers are not traditional hunting grounds for quality compounders, so we have relatively low exposure. We believe that both factors are unlikely to be sustained for the next five years and so, we have not chased these volatile companies and turnover has remained low.

Transactions

We purchased one new stock for the portfolio this quarter: CME Group. Founded in 1898, CME group is the world's largest marketplace for derivatives. The numbers boggle the mind: the notional value of the contracts traded on its four exchanges is more

than \$1 quadrillion, or about 40 times the size of the US economy.

These contracts offer clients the opportunity to hedge or speculate on a very wide range of products. For example, farmers use it to sell lean hogs in 3 months at a price agreed today, banks use it to protect against changes in interest rates and utilities use it to hedge the risk of a cold snap in the future. CME's Globex platform matches buyers with sellers and its clearing house business reduces risk for both, with CME as the counterparty to every trade.

The name of the game is to be as efficient as possible to lower costs and attract volume, which, in turn, lowers costs further in a virtuous circle. CME's revenues and operating profits have grown at around 8% per annum over the past decade and we see several factors which could sustain that growth over the next decade: an increased use of derivatives by companies and asset managers to hedge risks on a growing asset base, pricing power in what is effectively a natural monopoly and product innovations.

The above has been known for some time, so why buy now? The valuation multiple paid on the company has gone down this year as people worried about the impact of lower interest rates and a potential new competitor, FMX, trying to gain share. After doing more due diligence, we believe that both of these threats may not be as high as perceived, which offers us a good opportunity to buy into a great business at an attractive valuation.

Financial infrastructure assets

That purchase is adding to our small collection of exchanges, which have become natural monopolies: very cash-generative and resilient businesses with a growth tailwind as economies develop their financial markets. So long as they don't abuse their critical position at the nexus of financial markets, we think they are great businesses to own.

Deutsche Boerse and CME benefit from increased regulation, however strange that may sound. The regulator is concerned about the volume of trading still being done directly between two institutions, which introduces counterparty risk and removes visibility on price for market participants. Hence a push for these trades to move onto exchanges like Deutsche Boerse and CME, where a clearing house and more

transparency should, in theory, reduce systemic risks.

The Hong Kong stock exchange is another holding, which sits at a very critical node in the financial system: the gate between China and the rest of the world. Whilst geopolitics is currently a headwind, the gradual integration of China in the global financial system continues. As financial exchanges with the world increase, the Hong Kong Stock Exchange benefits. For B3 in Brazil, the long-term driver of growth is a shift in financing from bank loans to equities as the Brazilian economy matures.

These four businesses are very difficult to dislodge, they continue to innovate and benefit from long-term tailwinds. They have grown their profits at a pace ranging from ~7% per annum for B3 to 14% for CME over the ten years to 2023, generate lots of cash and are very resilient in a downturn. Provided they keep on top of the technology, they should be able to grow at a reasonable pace and most importantly, generate very reliable cashflows to pay resilient dividends. Combined, they represent close to 6% of the portfolio.

We funded the purchase of CME by selling our position in the UK's leading savings platform Hargreaves Lansdown, effectively swapping one financial company for another. Shares had been weak over the past 18 months as results had disappointed. The post-covid slowdown and the investment needed to modernize its platform affected both profits and sentiment on the company. This attracted an opportunistic bid by Private Equity owners in the spring, a bid which was finally recommended by the company's Board in August. With no alternative bidder in sight, and to avoid the non-negligible risk of a last-minute collapse, we divested our holding just before the deal closed.

Investment conferences and kicking tyres

This quarter, the investment team have been on the road to attend investment conferences, meet existing holdings and hunt for new long-term compounders.

On the ground research is an opportunity to "kick the tyres", which is literally what one of the managers did on a "sightseeing" weekend in September in the US. With 2,200 stores, Tractor Supply is the largest rural lifestyle retailer in

America, selling a wide range of products: pet food, dog pyjamas, live chicks (11m a year!) and... tyres.

This was part of a due diligence, which started with a call in March, a dinner with management in NY in June, another call with the CEO in August, a research report discussion and the site visit in September. Proper due diligence takes time but with an average holding period of ~8 years, we believe that it is time well spent. In the end, Tractor Supply did not make it into the portfolio: it is a great business, but it is valued as such, limiting the expected return. Having done the due diligence, we'll be ready to act whenever, as inevitably happens, the market gives us an opportunity to buy at a better price.

What never ceases to amaze us is the kind of access and time we get with these companies, considering we are only a small potential or existing shareholder. Our reputation as patient investors goes a long way.

On that same trip, we spent a morning with the US subsidiary of the CAR group, our Sydney-listed car-selling platform company. Their US business is dedicated to non-car vehicles like Recreational Vehicles, quad bikes or snowmobiles. Quite a niche, and a business which is difficult to assess from the outside. Management teams grant us the time because they know we are patient investors, not traders, and they value the fact that we ask questions about the next decade rather than the next quarter.

Another manager was also in the US and saw, amongst others, three payroll companies in three different states. Spending a morning with a payroll company may not be everyone's idea of a dream job but it allows for meaningful, in-depth conversations away from the Wall Street noise.

Most company information today is widely available and quickly spread, making the pursuit of genuine insights increasingly challenging. Our research trips can feel like sifting through rivers of information in search of golden insights that will support our analysis. Time-consuming and labour-intensive, but essential to gain conviction and form a differentiated view.

Conclusion

Global economic activity is slowing down and geopolitical tensions remain but a decisive shift by the US Federal Reserve and some stimulus in China should provide support in the coming months. What is not slowing down is our research engine and trips this quarter have brought up interesting ideas the team is now working on.

Broadly flat global equity markets and portfolio returns in the quarter (in GBP) mask what has been a volatile period. We believe that maintaining a well-diversified portfolio of resilient companies remains critical in a more volatile macro and market environment.

Performance Objective

To achieve a yield higher than the MSCI ACWI Index whilst, over rolling five-year periods, achieving growth in both income and capital by investing in companies anywhere in the world

The performance objective is aspirational and is not guaranteed. We don't use it to compile the portfolio and returns will vary. A single performance objective may not be appropriate across all vehicles and jurisdictions. We may not meet our investment objectives if, for example, our growth investment style is out of favour, or we misjudge the long-term earnings growth of our holdings.

Periodic Performance

GBP	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	1.0	0.6	0.5
1 Year	12.7	20.4	-7.7
3 Years	6.8	8.8	-2.0
5 Years	9.5	10.8	-1.4
10 Years	11.2	12.1	-0.8
Since Inception	10.4	10.9	-0.5
USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	7.2	6.7	0.5
1 Year	23.9	32.3	-8.5
3 Years	6.6	8.6	-2.0
5 Years	11.3	12.7	-1.4
10 Years	9.1	10.0	-0.8
Since Inception	9.5	10.0	-0.5
EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	3.0	2.5	0.5
1 Year	17.5	25.6	-8.0
3 Years	8.0	10.0	-2.0
5 Years	10.8	12.2	-1.4
10 Years	10.5	11.3	-0.8
Since Inception	11.0	11.4	-0.5
CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	5.9	5.4	0.5
1 Year	23.8	32.2	-8.5
3 Years	8.9	11.0	-2.0
5 Years	11.8	13.2	-1.4
10 Years	11.2	12.1	-0.8
Since Inception	11.7	12.2	-0.5
AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	3.2	2.7	0.5
1 Year	15.3	23.1	-7.9
3 Years	8.1	10.1	-2.0
5 Years	10.7	12.1	-1.4
10 Years	11.7	12.5	-0.8
Since Inception	11.6	12.1	-0.5

Annualised periods ended 30 September 2024. 3 Month & 1 Year figures are not annualised.

Inception date: 31 March 2010

Figures may not sum due to rounding.

Benchmark is MSCI ACWI Index. (25% FTSE All Share, 75% FTSE All World ex UK prior to 31 May 2012).

Source: Revolution, MSCI.

Global Income Growth composite is more concentrated than MSCI ACWI Index

Discrete Performance

GBP	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	8.9	18.5	-1.2	9.4	12.7
Benchmark (%)	5.8	22.8	-3.7	11.0	20.4
USD	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	14.2	23.6	-18.2	19.6	23.9
Benchmark (%)	11.0	28.1	-20.3	21.4	32.3
EUR	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	6.2	25.0	-3.2	10.7	17.5
Benchmark (%)	3.2	29.6	-5.7	12.3	25.6
CAD	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	15.2	17.2	-11.3	17.7	23.8
Benchmark (%)	12.0	21.5	-13.5	19.5	32.2
AUD	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Composite Net (%)	7.5	22.6	-8.1	19.2	15.3
Benchmark (%)	4.4	27.1	-10.4	21.0	23.1

Benchmark is MSCI ACWI Index. (25% FTSE All Share, 75% FTSE All World ex UK prior to 31 May 2012).

Source: Revolution, MSCI.

Global Income Growth composite is more concentrated than MSCI ACWI Index

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2024

Stock Name	Contribution (%)
ANTA Sports Products	0.4
NVIDIA	0.3
Partners	0.3
Midea	0.3
Amazon.com	0.2
Fastenal	0.2
Alphabet Inc Class A	0.2
Hong Kong Exchanges & Clearing	0.2
Deutsche Boerse	0.2
Alphabet Inc Class C	0.2
Novo Nordisk	-0.8
Edenred	-0.2
Tesla Inc	-0.2
Intuit	-0.2
Cognex Corp	-0.2
Fevertree Drinks	-0.2
TSMC	-0.1
Analog Devices	-0.1
Kuehne & Nagel	-0.1
T. Rowe Price Group, Inc	-0.1

One Year to 30 September 2024

Stock Name	Contribution (%)
TSMC	1.0
Schneider Electric	0.5
Experian	0.4
SAP	0.3
CAR Group	0.3
Tesla Inc	0.2
Midea	0.2
Atlas Copco	0.2
AVI	0.2
EXXON MOBIL CORP	0.2
NVIDIA	-2.0
Edenred	-1.1
Albemarle	-0.9
UPS	-0.7
B3	-0.6
Pepsico	-0.6
Nestle	-0.5
Sonic Healthcare	-0.5
Meta Platforms	-0.5
NetEase	-0.4

Source: Revolution, MSCI. Global Income Growth composite relative to MSCI ACWI Index.

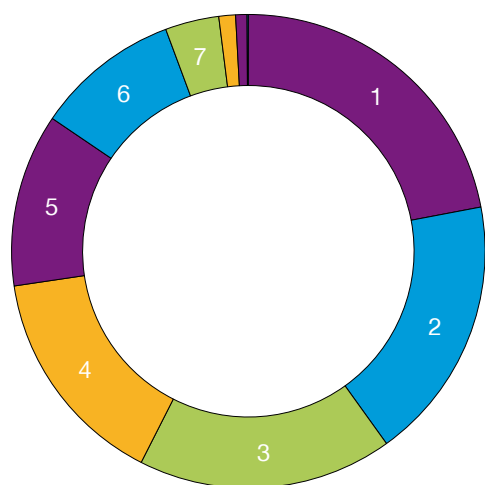
The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions to the portfolio's performance and a description on how the attribution is calculated is available on request. Some stocks may not have been held for the whole period. All attribution figures are calculated gross of fees, relative to the index from stock level up, based on closing prices. As attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio.

Top Ten Largest Holdings

Stock Name	Description of Business	% of Portfolio
Microsoft	Technology company offering software, hardware and cloud services	4.3
Fastenal	Distribution and sales of industrial supplies	3.5
Partners	Private markets asset management	3.4
Novo Nordisk	Pharmaceutical company	3.2
Procter & Gamble	Household product manufacturer	3.2
Atlas Copco	Manufacturer of industrial compressors	3.1
Apple	Computing and media equipment	3.1
TSMC	Semiconductor manufacturer	2.9
Schneider Electric	Electrical power products	2.7
Deutsche Börse	Stock exchange operator	2.7
Total		32.1

Figures may not sum due to rounding.

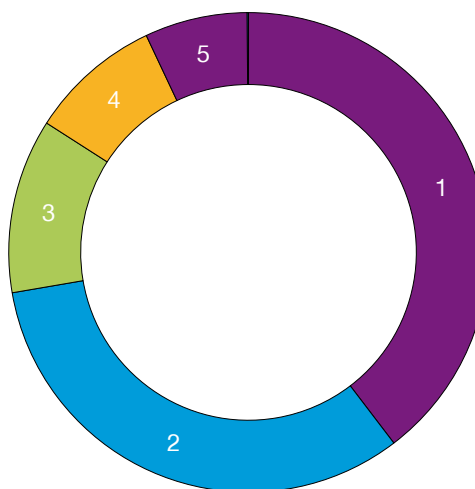
Sector Weights



	%
1 Industrials	22.0
2 Information Technology	18.1
3 Financials	17.4
4 Consumer Staples	15.2
5 Consumer Discretionary	11.8
6 Health Care	9.9
7 Communication Services	3.7
8 Utilities	1.1
9 Materials	0.8
10 Cash	-0.1

Figures may not sum due to rounding.

Regional Weights



	%
1 North America	39.7
2 Europe (ex UK)	32.7
3 Developed Asia Pacific	11.8
4 Emerging Markets	8.9
5 UK	6.9
6 Cash	-0.1

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	3	Companies	None	Companies	1
Resolutions	60	Resolutions	None	Resolutions	1

Company Engagement

Engagement Type	Company
Environmental	ANTA Sports Products Limited, Experian plc, United Parcel Service, Inc.
Social	ANTA Sports Products Limited, Apple Inc., Experian plc
Governance	Apple Inc., Deutsche Börse AG, Experian plc, Hong Kong Exchanges and Clearing Limited, McDonald's Corporation, Midea Group Co., Ltd., NetEase, Inc., T. Rowe Price Group, Inc., USS Co., Ltd.
Strategy	Epiroc AB (publ)

Company	Engagement Report
Apple	<p data-bbox="515 432 1489 488">Objective: To encourage Apple to adopt ethical principles and guardrails that guide the company's use of artificial intelligence (AI) in its products.</p> <p data-bbox="515 510 1489 831">Discussion: We abstained on an AI-related shareholder proposal at Apple's AGM earlier this year. We based our decision on our agreement with the company that a request for a 'Transparency Report' on its AI strategy could compromise its competitive position and impose unnecessary bureaucratic costs. However, within the same proposal, we identified value in a request for Apple to develop and disclose ethical AI principles. Recognising the potential risks and opportunities associated with AI, we anticipate that this area will be subject to heightened scrutiny from regulators. We believe establishing and disclosing ethical AI principles can serve as essential guardrails for AI's responsible development and deployment at Apple. This proactive approach could help the company mitigate legal and compliance risks related to AI technology. Following the AGM, we engaged with Apple's global senior director of corporate law to explain our voting rationale and emphasise the importance of ethical AI principles.</p> <p data-bbox="515 853 1489 1059">Outcome: This quarter, we were pleased to observe Apple become a signatory to the White House's voluntary commitments towards ensuring the safe, secure and trustworthy use of AI. In joining, the company has agreed to a set of White House provisions that encourage developers to follow safety protocols and test their models for biases and security risks. Apple's commitment to the White House's voluntary AI safeguards is a positive step that aligns the company with industry peers and regulators, demonstrates collaborative efforts on ethical AI development, and reflects a board and management team responsive to our and other shareholders' concerns.</p>

Votes Cast in Favour

Companies	Voting Rationale
Diageo, Experian, Midea Group 'A'	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

We did not vote against any resolutions during the period.

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
Midea Group 'A'	EGM 02/07/24	8	We abstained on the provision of guarantees to a controlled subsidiary because the provision does not stipulate the use of counter guarantees and also does not appear to be proportionate to the company's holding.

Votes Withheld

We did not withhold on any resolutions during the period.

New Purchases

Stock Name	Transaction Rationale
CME Group Inc	<p>Founded in 1898, CME is the world's largest marketplace for derivatives. The numbers boggle the mind: the notional value of the contracts traded on its four exchanges is more than \$1 quadrillion, or about 40 times US GDP. Its contracts offer clients the opportunity to hedge, or take views, on a wide range of agricultural, metal, financial and other products. For example farmers use it to sell wheat in 3 months at a price agreed today, and utilities use it to hedge the risk of a cold snap in the future. CME's platform matches buyers with sellers and its clearing house business reduces risk for both, with CME as the counterparty to every trade.</p> <p>In the past 50 years there have been only 7 times when the volume of derivatives trading over CME's platform has fallen year-over-year. During the past decade, CME's earnings per share have compounded at 12% per annum. Looking forward, we see multiple growth drivers that appear likely to sustain good growth rates over the next 5-10 years, including rising number of investors outside the US using the platform, and an ever-expanding product range including for example lithium and other battery metals.</p> <p>So why are we investing now? The shares have derated this year as some investors have worried about two risks. The first is the emergence of a potential new competitor, FMX, in one of CME's business lines. History tells us the odds of FMX succeeding are very low: there are only two instances in the past several decades when a competitor has successfully stolen a business line from an incumbent derivative exchange. Our due diligence suggests this is unlikely to be the third. At the same time, some investors see a second risk. They worry that lower interest rates at the Federal Reserve will lead to decreased trading volumes in CME's interest rate futures business. This is a story that appears from time to time but again, our experience is that the level of interest rates is not a factor that drives interest rate derivative volumes.</p> <p>In short, we view these worries as presenting an attractive opportunity to invest in a terrific business which we expect to compound earnings and dividends at a good rate for many years to come.</p>

Complete Sales

Stock Name	Transaction Rationale
Hargreaves Lansdown	<p>This has been a poor investment. We took a holding expecting many years of asset growth on the platform, driven by structural changes in the UK savings market, Hargreaves leadership position as perhaps the most trusted provider in the industry, and its ongoing innovation of new products such as cash savings. At the time we invested, we were aware of some management issues, but we believed these were being addressed. However it became apparent over the past couple of years that these issues ran deeper than we thought, and the company struggled with customer service levels. Customer growth slowed, raising concerns about the future earnings of the business, and the share price fell. The Board replaced the senior management team, and the new executives who were appointed recognised they would need to raise the company's investment in its internal systems, following a period of under-investment.</p> <p>The new plans seemed to hold good potential to address the company's issues. We expected to hold on to the shares and ride through the issues, given that all of the positives behind the invest case were still in place. However, what we had not anticipated was that an opportunistic bid by private equity would emerge and, to our surprise, would be backed by the two founders of the company, who still have a substantial holding in the shares. Typically we would hope that anchor shareholders helped protect minority shareholders from low-ball bids: we believe the price offered by the private equity consortium significantly undervalues the company. However, in this case it appears the founders are able to maintain an ownership position alongside the private equity bidders. The bid was then recommended by the company's Board. With no alternative bidder in sight, and the shares trading at the bid price, we divested our holding just before the deal closed, so that we could put the capital to work in something more productive. A disappointing outcome, but one we will learn from.</p>

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