

Global Alpha Quarterly Update

31 December 2023



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**Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 bailliegifford.com**

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Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction costs and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that recommendations/ transactions made in the future will be profitable or will equal performance of the securities mentioned.

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All investment strategies have the potential for profit and loss.

Stock Examples

Any stock examples, or images, used in this paper are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style. A full list of portfolio holdings is available on request.

The commentary relates to the above mentioned strategy and not all stocks mentioned may be held in the portfolio.

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Product Overview

Global Alpha is a long-term, diversified, global equity strategy selecting growth stocks on a bottom up basis with a focus on fundamental analysis. The strategy combines the specialised knowledge of Baillie Gifford’s investment teams with the experience of some of our most senior investors.

Risk Analysis

Key Statistics	
Number of Holdings	97
Typical Number of Holdings	70-120
Active Share	82%*
Rolling One Year Turnover	15%

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

Aggregate forecast earnings growth for the portfolio has accelerated significantly

Companies which have adapted to the new environment are reaping the benefits

We are able to add exceptional companies to the portfolio at attractive valuations



Baillie Gifford Key Facts

Assets under management and advice	US\$287.6bn
Number of clients	674
Number of employees	1831
Number of investment professionals	395

‘Suicidal folly’, a ‘time bomb’ and the cause of the ‘uncivil society’ in which so many citizens of the world now find themselves living. These headlines capture the tone of the more pessimistic commentary around the accelerating development of artificial intelligence and the incorporation of digital technologies into our everyday lives. However, the above quotes come not from recent headlines but from the Pessimists Archive¹, a fascinating repository of the history of moral panics, hysteria and technophobia which has so often accompanied the development and accelerating adoption of new technologies. The quotes refer, specifically, to the development of hydroelectric power, corrupted floppy disks and the Walkman. Other panics have included rising crime resulting from the installation of electric street lighting (the contrasting surrounding darkness creating ‘unusual facilities for the operations and escape of thieves and burglars’) and cycling eroding the moral fabric of society by encouraging women to wear trousers (it being impossible to cycle in a long skirt). Presumably, anyone fretting about the increase of frivolous messages ‘clogging their fax machine’ has long since started to breathe a little easier.

It is easy to chuckle at the hyperventilation suggested by the articles in the Pessimists Archive, but they reflect a natural bias in human nature. Humans are hardwired for pessimism. From an evolutionary perspective, this makes sense. Our ancestors who decided that it may well be a tiger hiding in the bushes, lived to fight (or run away) another day. The genes of their more optimistic friends who dismissed the shadows in the undergrowth as merely the dappling of shade in the sunlight, disappeared from history.

As we come to the end of another year where the performance of a representative Global Alpha portfolio has lagged slightly behind the benchmark, it would be easy to be pessimistic about the prospects for investments at this moment in time. However, this letter will set out five good reasons to believe that capitulation at the current juncture would be as misguided as the ban on wearing the Walkman in public implemented by the town of Woodbridge, New Jersey in 1982 (and still on the statute books today).

1. A brightening outlook

Perhaps the most important evidence in support of an increasingly optimistic outlook is that forward earnings estimates for the portfolio have increased significantly over the last year. At the end of December last year, for a representative Global Alpha portfolio, the

aggregate three-year forward earnings forecast for the portfolio was barely ahead of the market at 5.4% vs 5.2% (in USD). This was in very stark contrast to our own view on the outlook for these companies. Since then, if we look at the same data to the end of November, these independent estimates for the portfolio have nearly tripled, to 15%. In contrast, the figure for the broad market, now at 6%, has barely moved. Strikingly, if we examine the last ten years of data, this difference between forecast earnings growth for a representative Global Alpha portfolio and the broader market now exceeds any other period by a substantial margin. This suggests that the market is only just starting to come around to the far superior growth potential of the portfolio. Conditions are ripe for share performance to follow.

Furthermore, importantly, this improvement in the near-term growth outlook does not reflect any sacrificing of longer-term ambition. Investment in future innovation, as measured by the ratio of research and development spending to sales across the portfolio, remains well ahead of the broader market (at 8.8% vs 4.7%). The other metrics we have highlighted in recent letters also remain highly supportive. For example, the portfolio, in the aggregate, has much lower levels of indebtedness (net debt to equity of 17.5% vs >50%) and vastly superior gross margins (c.40% vs <30%).

2. Execution and acceleration

In simple terms, this acceleration in important fundamentals reflects the financial and cultural adaptability of companies in the portfolio. While the market may be good at pricing in a change in the macro weather, it is much less willing to reflect on the potential for companies to trim their sails accordingly. As a result, where companies have shown evidence of disciplined execution, resulting in a combination of accelerating revenue growth and margin expansion, this has come as a surprise and the share price has been forced to play catch up, particularly where this was accompanied by a low starting valuation.

Reassuringly, given our focus on breadth of growth, there are examples of this phenomenon from across the portfolio. Within the Disruptors profile, for instance, we could point to Amazon, where operating margins have inflected sharply, reflecting the efficiency gains now coming through from the elevated levels of investment over the last few years. Likewise, Shopify has recovered its mojo, shedding its experiment with logistics to refocus on its ‘main quest’ of making commerce easier for everyone. A leaner, more focused Shopify is already

¹ <https://pessimistsarchive.org/>

being rewarded with not just continued revenue growth in the mid-20s but a dramatic increase in profitability.

But it is perhaps Doordash which provides the clearest example of the underappreciated benefits of a tougher macro environment. A long record of near-flawless execution has enabled Doordash to gobble up almost two thirds share of the online meal delivery market in the US. The question was whether this would ever translate into attractive returns commensurate with this scale and dominance. However, as its nearest competitor, Uber Eats, has shifted its own focus towards profitability and weaker competitors have been forced to retrench, these conditions have enabled Doordash to consistently surprise the market, reporting profitability over 30% higher than market estimates for the last three consecutive quarters.

It is a similar story at Meta (Compounders profile), which ended 2022 with growth having slowed to a crawl and margins having been crushed under the weight of investment spending on trying to birth the Metaverse. Roll forward one year, and growth has reaccelerated as advertisers returned to the platform. The benefit of significant cost reductions as part of Meta's 'year of efficiency' are being felt. With Reels gaining traction, the competitive threat from TikTok is in retreat and there is ample evidence of Meta's powerful capabilities in the development of Artificial Intelligence tools. Within the Capital Allocators profile, businesses such as Martin Marietta, CRH, Comfort Systems and Eaton are all enjoying a similar combination of red-hot demand, strong pricing power and rapidly rising profitability.

3. Consolidating competitive advantage

Elsewhere in the portfolio, there is another cohort of companies at a different point in their respective cycles, where the external conditions have resulted in a temporary lull in their growth. We are comfortable owning such companies, if we can reassure ourselves that the businesses in question can, not just endure such cyclical slowdowns, but continue to invest such that their competitive position is strengthened, and the companies can emerge stronger into the subsequent recovery.

The long history of Global Alpha provides some historical evidence to support the value of this sort of patience. On the lookout for high-quality businesses suffering during the deep economic uncertainty of the Global Financial Crisis, we purchased new holdings in the likes of Disney (late 2008) and Samsung Electronics (early 2009). Both businesses continued to make brave investment decisions during this difficult period, the payoff from which helped to turbo-charge their recovery as

the economic conditions improved. We ultimately sold these holdings at share prices around three and half times (Disney) and over six times (Samsung) higher than these initial investments, after a holding period of around six and nine years respectively.

Earlier in the year we therefore deliberately added exposure to companies in this cohort, with new purchases of the likes of Pool Corp, Advanced Drainage Systems, Floor & Décor and Sartorius Stedim, given the attractive valuations on offer as a result of their cyclical headwinds. Recent results from Floor & Décor, the hard flooring retailer, illustrate the qualities we seek in companies during these tougher times. Existing home sales, a key driver of home upgrades, are running at a lower rate than at any point since the Global Financial Crisis, given so many potential US homebuyers are 'trapped' in their existing low-rate mortgages which they would have to relinquish were they to move. However, even in this exceptionally challenging environment, Floor and Décor not only remain profitable and cash-generative but are gaining market share while continuing to open new outlets. Our investment case predicts a decade-plus opportunity to roll out new stores, driving economies of scale and helping to take share in a structurally growing market.

4. Innovation and quality are attractively valued

Naturally, we have been on the lookout for other opportunities which offer similar characteristics outlined in the two prior sections. As a result, we have taken a new holding for you in Block, the financial services business, where we see a combination of rapidly improving fundamentals and a highly attractive valuation, should earnings inflect as we expect. Block owns two complementary ecosystems: Square, a hardware and software stack that offers commerce tools for small merchants, and Cash App, a consumer finance app that allows consumers to spend, send, save, invest, and increasingly shop. Square continues to expand the range of tools it offers, including the launch of Square Go, a marketplace app for consumers, Square for Franchise, to serve complex sellers, and a suite of AI products. Meanwhile, Cash App, which could already be the biggest fintech ecosystem in the US, continues to see sizeable inflows with the balance increasingly shifting towards more sticky cash card and direct deposit users. Both areas are enjoying strong momentum, and with unexploited efficiencies from bringing the two areas of the company together more closely as well as an explicit focus on cost discipline, we expect earnings to ramp quickly from here.

In a similar context, we have also taken a new holding in the Chinese e-commerce platform Pinduoduo, or PDD. Having only launched in 2015, PDD has grown to become the third largest platform in China with over 900m users. Its key differentiator has been to redefine e-commerce as a socially driven experience, which has attracted a previously underserved demographic. Offering an interactive and entertaining platform, rather than a simple search-based model, PDD posts new and different items each day, creating a 'treasure hunt' for its users with daily games and rewards available. Beyond the core e-commerce platform, PDD has also developed Temu, for overseas markets, and Duoduo Grocery, which combines the grocery, agriculture and community-group-buying initiatives. With growing evidence of the potential for substantial profitability and new areas of growth, such as Temu and Grocery, gaining traction, we see the possibility of substantial future upside from this starting point.

The hunt for exceptionally high-quality business where temporary dips in growth may offer attractive entry points has led us to take a new holding in luxury goods powerhouse LVMH. Beyond the 75 individual brands, including Dior, Fendi, Stella McCartney and Kenzo, as well as the eponymous Louis Vuitton, our thesis is that LVMH has built a 'luxury engine'. Its model resembles a flywheel, where LVMH has become a superior owner of luxury brands, able to take advantage of the benefits of scale, sharing best practices in areas like distribution, and reducing the fashion risk inherent in any individual brand. Despite the benefits of the scale the company has amassed over recent years, near-term concerns about the outlook for the demand for luxury goods mean that we have acquired the holding at a multiple of near-term earnings relative to the market far below the average of the last decade.

In contrast to the above examples, we have moved on from Illumina (gene sequencing) and Farfetch (online luxury marketplace) where execution has been poor. In both cases, this comes with a degree of frustration as their market opportunities remain enticing and the quality of their products excellent. With Illumina, the poorly executed acquisition of Grail ultimately led to a change in the management team. However, we fear that the long period of distraction has allowed credible competitors to catch up and it may take years to improve a culture that has become complacent. In the case of Farfetch, the rich potential rewards from being able to offer their bespoke luxury retail software across the industry were lost to overexpansion in doomed projects such as the acquisition of Reebok.

5. *Powerful structural trends continue*

Last but not least, and as we articulated in last quarter's commentary, the companies in the portfolio are either pioneering or disproportionately benefiting from powerful long-term currents of change. These secular shifts include, for example, the need to upgrade ageing infrastructure, decarbonise the economy and better meet the needs of ageing populations. Meanwhile, the development and adoption of powerful new AI tools remains in its infancy. Years of patient research in healthcare is bearing fruit with more personalised and effective treatments and disease prevention. Opportunities also exist for companies to address structural bottlenecks in critical resources, cloud infrastructure and logistics networks. Multi-decade forces such as these should help the portfolio sustain its forecasted earnings growth. A compounding at this rate over the next five years, everything else held equal, would result in a doubling of current investments.

Conclusion

Perhaps unusually, much of this letter has reflected on the near-term outlook for the companies in the portfolio. While we remain absolutely focussed on the long-term outlook, we are acutely aware that recent performance, which has also dragged down the longer-term numbers, will have continued to test our clients' patience. As a result, we have tried to give a sense of the operational progress which will be central to the recovery.

However, while the last few years have felt like an era where our evolutionarily hard-wired pessimism has been justified, there are good reasons for a more optimistic outlook. Aggregate earnings growth for the portfolio is accelerating. A wide variety of companies are reaping the benefits of their adaptation to the new environment. Others are using temporary headwinds to consolidate their positions. Furthermore, opportunities abound to purchase new holdings in exceptional companies at attractive valuations. Structural tailwinds remain intact. Together, these conditions suggest a fertile environment for a recovery to flourish.

Performance Objective

+2% to 3% p.a. over rolling 5 year periods vs index.

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	8.8	6.4	2.4
1 Year	12.7	15.9	-3.1
3 Years	-0.8	8.7	-9.6
5 Years	10.4	12.2	-1.8
10 Years	11.2	11.4	-0.2
Since Inception	10.8	9.8	0.9
USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	13.6	11.1	2.5
1 Year	19.5	22.8	-3.3
3 Years	-3.1	6.2	-9.4
5 Years	10.5	12.3	-1.8
10 Years	8.3	8.5	-0.2
Since Inception	8.7	7.7	0.9
EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	8.9	6.5	2.4
1 Year	15.4	18.7	-3.2
3 Years	0.2	9.9	-9.7
5 Years	11.2	13.0	-1.8
10 Years	10.7	10.9	-0.2
Since Inception	9.3	8.4	0.9
CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	10.8	8.4	2.4
1 Year	16.3	19.5	-3.2
3 Years	-2.0	7.5	-9.5
5 Years	9.7	11.5	-1.8
10 Years	10.7	10.8	-0.2
Since Inception	8.9	8.0	0.9
AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	7.5	5.1	2.3
1 Year	18.7	22.1	-3.3
3 Years	0.9	10.7	-9.8
5 Years	11.2	13.0	-1.8
10 Years	11.3	11.5	-0.2
Since Inception	9.3	8.3	0.9

Annualised periods ended 31 December 2023. 3 Month & 1 Year figures are not annualised.

Inception date: 31 May 2005

Figures may not sum due to rounding.

Benchmark is MSCI ACWI Index (MSCI World Index prior to 31 March 2008).

Source: Revolution, MSCI.

The Global Alpha composite is more concentrated than the MSCI ACWI Index.

Discrete Performance

GBP	31/12/18- 31/12/19	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23
Composite Net (%)	27.5	32.2	8.3	-20.1	12.7
Benchmark (%)	22.4	13.2	20.1	-7.6	15.9
USD	31/12/18- 31/12/19	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23
Composite Net (%)	32.7	36.4	7.3	-29.1	19.5
Benchmark (%)	27.3	16.8	19.0	-18.0	22.8
EUR	31/12/18- 31/12/19	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23
Composite Net (%)	35.1	25.1	15.4	-24.4	15.4
Benchmark (%)	29.6	7.2	28.1	-12.6	18.7
CAD	31/12/18- 31/12/19	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23
Composite Net (%)	26.0	34.0	6.4	-23.9	16.3
Benchmark (%)	20.9	14.8	18.0	-12.0	19.5
AUD	31/12/18- 31/12/19	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23
Composite Net (%)	32.9	24.3	13.9	-24.0	18.7
Benchmark (%)	27.5	6.4	26.3	-12.0	22.1

Benchmark is MSCI ACWI Index (MSCI World Index prior to 31 March 2008).

Source: Revolution, MSCI.

The Global Alpha composite is more concentrated than the MSCI ACWI Index.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to December 31, 2023

Stock Name	Contribution (%)
Ryanair	0.5
CRH	0.3
Moody's	0.3
Martin Marietta Materials	0.3
Shopify	0.3
Block Inc	0.2
Exxon Mobil Corp	0.2
Cloudflare	0.2
Service Corporation International	0.2
Adyen	0.2
Ping An Insurance	-0.3
The Trade Desk	-0.2
Prosus	-0.2
Albemarle	-0.2
Shiseido	-0.2
AJ Gallagher & Co	-0.1
Markel	-0.1
Genmab	-0.1
Broadcom	-0.1
Alibaba	-0.1

One Year to December 31, 2023

Stock Name	Contribution (%)
CRH	0.9
Ryanair	0.7
Meta Platforms	0.6
Martin Marietta Materials	0.6
Shopify	0.5
Moody's	0.4
Doordash	0.4
The Trade Desk	0.3
Amazon.com	0.3
Entegris	0.3
NVIDIA	-1.1
Elevance Health Inc	-1.0
Apple	-0.8
Moderna	-0.8
Royalty Pharma	-0.7
Prosus	-0.7
AIA	-0.7
Shiseido	-0.6
Alnylam Pharmaceuticals	-0.6
Olympus	-0.6

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

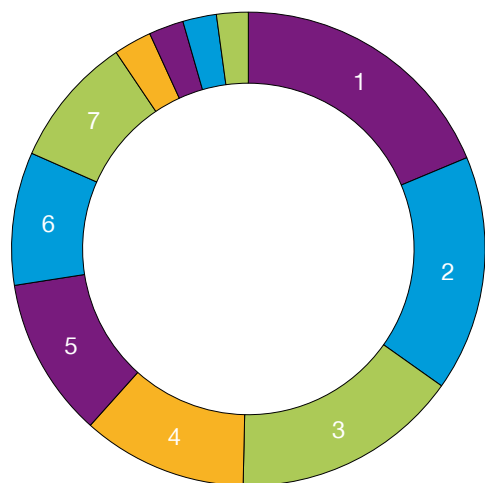
The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions to the portfolio's performance and a description on how the attribution is calculated 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	3.6
Martin Marietta Materials	Cement and aggregates manufacturer	3.5
Amazon.com	E-commerce, computing infrastructure, streaming and more	3.3
Elevance Health Inc.	US health insurer	3.2
Moody's	Provider of credit ratings, research and risk analysis	3.2
Ryanair	European low-cost airline	3.0
CRH	Building materials supplier	2.8
Meta Platforms	Social media and advertising platform	2.7
Alphabet	Search platform, software, cloud services and more	2.5
Reliance Industries	Indian conglomerate in energy, textile, digital and financial services and more	2.3
Total		30.2

Figures may not sum due to rounding.

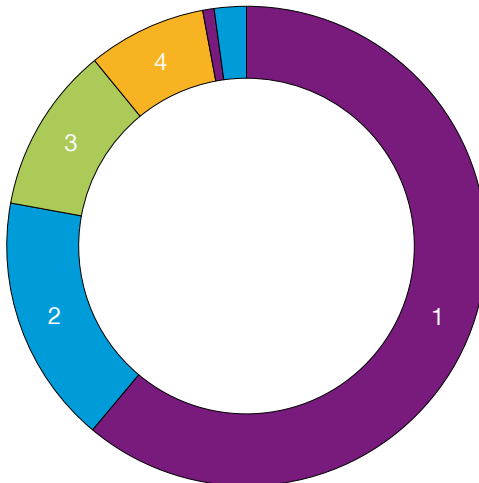
Sector Weights



	%
1 Consumer Discretionary	18.7
2 Information Technology	16.1
3 Financials	15.5
4 Industrials	11.3
5 Health Care	10.9
6 Communication Services	9.1
7 Materials	9.0
8 Energy	2.6
9 Real Estate	2.4
10 Consumer Staples	2.3
11 Cash	2.2

Figures may not sum due to rounding.

Regional Weights



	%
1 North America	61.1
2 Europe (ex UK)	16.8
3 Emerging Markets	11.2
4 Developed Asia Pacific	8.0
5 UK	0.8
6 Cash	2.2

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	6	Companies	3	Companies	1
Resolutions	78	Resolutions	13	Resolutions	1

The strategy continues to ensure our Environmental, Social and Governance (ESG) research, integration and stewardship activities are focused on issues material to the investment case and companies' long-term growth prospects

Results of our climate audit show that 23 companies (representing 28% of AUM) have improved their climate audit rating since December 2021

Our engagements this quarter have covered a wide range of topics including employee rights, supply chain transparency, board diversity, and remuneration

Company Engagement

Engagement Type	Company
Environmental	Albemarle Corporation, Amazon.com, Inc., Analog Devices, Inc., BHP Group Limited, Broadridge Financial Solutions, Inc., Contemporary Amperex Technology Co., Limited, NovoCure Limited, Pool Corporation, Reliance Industries Limited, Ryanair Holdings plc, Snowflake Inc., Texas Instruments Incorporated
Social	Amazon.com, Inc., Netflix, Inc., Olympus Corporation, Reliance Industries Limited, Ryanair Holdings plc, Tesla, Inc.
Governance	Adyen N.V., Albemarle Corporation, Alibaba Group Holding Limited, Amazon.com, Inc., Analog Devices, Inc., BHP Group Limited, Broadridge Financial Solutions, Inc., Compagnie Financière Richemont SA, Contemporary Amperex Technology Co., Limited, CyberAgent, Inc., Floor & Decor Holdings, Inc., HDFC Bank Limited, Moderna, Inc., NVIDIA Corporation, Nippon Paint Holdings Co., Ltd., NovoCure Limited, Olympus Corporation, Pool Corporation, Reliance Industries Limited, Schibsted ASA, Sea Limited, Shopify Inc., Tesla, Inc., Texas Instruments Incorporated, The Charles Schwab Corporation
Strategy	Amazon.com, Inc., Reliance Industries Limited, Ryanair Holdings plc, Schibsted ASA, Tesla, Inc.

Company	Engagement Report
Adyen N.V.	<p>Objective: Following a discussion in the summer with the co-CEO and CFO of Adyen, the Dutch global payments processing platform, we engaged the company again to assess aspects of our investment thesis in more detail. Specifically, we discussed investor communications, rising headcount and culture.</p> <p>Discussion: For context, Adyen's share price approximately halved in August 2023, primarily due to the market's reaction to signs of competitive headwinds in Adyen's US digital business. Having discussed this with the co-CEO and CFO in August, we decided to kick the tyres of Adyen's US business. Specifically, we held meetings in San Francisco with the head of the North American business, the CFO, the global head of human resources and members of the management board, as well as several of Adyen's customers (and competitors' customers) in the US digital segment. We discussed management's decision to switch from a six-monthly reporting cycle (a common practice in the Netherlands) to a quarterly update cycle until at least next year, to provide greater visibility amid amplified investor uncertainty. With this decision, we believe management has struck a balance between listening to market feedback on communication while not caving to all the market's short-term demands. We also discussed what Adyen's doubling in headcount since 2021 might imply for its culture. While this countercyclical expansion stands to be competitively advantageous in the long run, and while Adyen remains very lean relative to any relevant competitor, we questioned whether the sheer speed of its expansion could result in operational strains. Management informed us that it has slowed the pace of hiring in the latter half of the year, partly as it had already completed most of its previously announced recruitment drive, and partly as it started to feel that recent interview candidates would dilute talent density in the company. Regarding culture, it was striking to witness the extent to which the cultural values from Adyen's Amsterdam headquarters - known as the 'Adyen Formula' - had permeated into the day-to-day business of its US operations.</p> <p>Outcome: Meetings with Adyen's US business were encouraging and consistent in terms of Adyen's growth opportunity, competitive advantage, cultural differentiation and operational execution.</p>

Company	Engagement Report
Alibaba Group Holding Limited	<p>Objective: We held several engagements with Alibaba, the Chinese e-commerce platform, to discuss progress and next steps in its organisational restructuring. Our most recent engagement with the company sought to understand management's rationale for (a) cancelling the IPO for its cloud business and (b) founder Jack Ma's structured share sale plan.</p> <p>Discussion: In a meeting with Chairman Joe Tsai at our Edinburgh offices, we were told about the Alibaba partnership's reasons for reorganising the company. In their view, the new governance structure created divisional CEOs for faster and nimbler decision-making to compete more effectively with fast-moving competitors. The company also shed some of its non-core businesses (e.g. gradually withdrawing from India and selling stakes in other businesses) and split its assets into six business units to allow for better alignment, improved operational efficiency, an easing of the regulatory burden, and potentially some de-risking of the company from possible US sanctions. In this context, we met separately with the CEO and CFO of Cainiao, Alibaba's logistics business (which may be one of the first units to IPO), to delve into its domestic and overseas market opportunities and its competitive edge. Following these engagements, we then learned of the cancellation of the public listing of the cloud business, Alibaba Cloud, in the context of the US announcing that it would expand its restrictions on China's access to semiconductors. If such a spin-out were to occur, management believes that it could result in competition between Alibaba and Alibaba Cloud for domestic computing resource for artificial intelligence. While Alibaba may lead a domestic alternative solution, manufacturing will be the main bottleneck. The timing of the IPO cancellation was unfortunate in that it coincided with an announcement that founder Jack Ma's family had entered a pre-structured share sale plan earlier in 2023, giving them the ability to sell stock over a one-year period beginning in November 2023. We were informed the sale is with a view to raise funds to invest in agriculture and charitable endeavours, and shares included in the plan represent 8 per cent of Ma's and his affiliates' total ownership.</p> <p>Outcome: Our engagements in recent months have helped us evaluate scenarios for Alibaba's future growth following the company's restructuring. It also confirmed the lack of correlation between the IPO cancellation and founder Jack Ma's share sale plan.</p>
Amazon.com, Inc.	<p>Objective: Alongside a small group of other shareholders, we met with two of the non-executive directors and a number of senior managers in Washington, DC. Over a number of hours, the conversations covered Board effectiveness, employee satisfaction, climate-related impacts, supply chain expectations and more.</p> <p>Discussion: Amazon has become one of the world's largest employers, making attraction and retention a critical challenge. The head of global workplace health and safety presented convincingly on efforts to make the company an exemplar of safety excellence and transparency. There is a similar ambition for the "career choice" training programme, which some 150,000 employees have joined so far. Keeping employee satisfaction high is almost certainly required if Amazon is to keep its locations union-free. This goal is not without controversy, but the company clearly views it as core to maximising the operational flexibility it thinks it needs for continuous improvement in process and automation. On climate, there is continued progress in renewable fuels and some response to our long-standing request for expanded scope 3 disclosures. Discussion of advancing AI as a tool for both Amazon retail and enterprise customers took the conversation into the working of the Board: how it educates itself and challenges the executive.</p> <p>Outcome: Amazon's agenda came across as twofold: to demonstrate the engagement of the independent directors and the efforts being devoted to employee satisfaction. We left messages on expanded supply chain engagement and the opportunity to lead on responsible and transparent AI.</p>

Company	Engagement Report
BHP Group Limited	<p>Objective: Ahead of the November AGM, we spoke with Fiona Wild, VP of Climate and Sustainability and members of the IR team to discuss climate-related issues. Unlike last year, there were no specific related resolutions, but we have specific concerns regarding the extent of scope 3 ambition and the use of scenarios.</p> <p>Discussion: With improved climate-related disclosure in this year's annual report, we were able to have a constructive discussion on the development of scenario analysis. Of particular note is the introduction of more robust physical risk scenarios, which the company has been able to use to explore near-term asset and labour resilience. We would like to see this work better integrated into the transition scenarios used for strategic planning and further disclosure of assumptions in the financial statements. On emissions, we continue to press for more information on the development of the downstream iron-to-steel value chain. It was useful to discuss the challenges in reducing methane emissions from the remaining coal mines and positive to hear of the specific R&D efforts for better monitoring and control. We should expect the first battery-driven mine truck in 2024, with fleet replacement over the following decade. We also discussed the improved disclosure of lobbying activities and pushed for a better definition of materiality and alignment.</p> <p>Outcome: A very useful update on progress that allowed us to make an informed judgement on voting ahead of the AGM and to provide early feedback prior to the revised Climate Transition Plan that will be put to shareholders in 2024. We will speak again before that.</p>
Contemporary Amperex Technology Co., Limited	<p>Objective: To deepen our understanding of CATL's pathway towards its newly released carbon-neutral targets through a visit to a net zero factory in Yibin, Sichuan province, the first zero-carbon battery factory in the world.</p> <p>Discussion: We have long been monitoring CATL's net zero path, not only because it is a large greenhouse gas emitter but also because of its potential on the battery supply chain to unlock a meaningful energy transition. Interestingly, we were one of only two investors invited on the trip, with the group of 20 attendees predominantly made up of companies in its supply chain who are directly implicated in CATL's net zero transition or journalists. The person in charge of the zero-carbon factory development at Sichuan CATL thoroughly discussed its methods for reducing scope 1 and 2 emissions. We learned more details, for example, on how CATL works with its natural gas providers for carbon-neutral gas and whether the measures can be replicated in other factories. We also touched upon CATL's contribution to the global battery passport rulemaking and the acknowledgement of green energy under the new EU Batteries Regulation. The company also answered questions from upstream material suppliers on the verification of carbon-neutral products during the discussion.</p> <p>Outcome: The trip provided us with a better sense of how CATL is making net zero efforts in its factories and throughout the value chain. It strengthened our conviction in the important role that CATL will play over the next decade and its commitment to mitigate the inevitable environmental and social impacts of battery making. Given the challenges brought out in meetings on the trip, we believe the company should reinforce supplier training and communication through the procurement department to have a real net zero impact on the supply chain. We look forward to the unfolding of digital battery passports and the resulting enhanced transparency on the carbon footprint.</p>

Company	Engagement Report
Moderna, Inc.	<p>Objective: Ahead of the 2024 AGM, Moderna reached out to get our feedback on some proposed governance changes and ask for our view on some compensation practices.</p> <p>Discussion: During the meeting, we discussed the governance changes proposed, which are uncontroversial and will continue to evolve as Moderna matures as a company. The changes include adopting a majority voting standard for director elections, adopting a proxy access bylaw and the right of shareholders to call a special meeting. We also discussed compensation at a high level. Moderna has come to the end of its first cycle of equity awards linked to performance conditions, and was open about the challenges of setting long-term targets.</p> <p>Outcome: Moderna would like our feedback again once compensation performance targets are disclosed to help them calibrate how challenging the targets are, which we agreed we would be happy to do. We remain interested in how the board will evolve in the short to medium term and we will keep in touch about progress on this.</p>
NVIDIA Corporation	<p>Objective: How has NVIDIA so persistently and successfully identified and delivered next-generation products into the market sooner than anyone else? This was the focus of our meeting with CEO Jensen Huang and CFO Colette Kress in New York.</p> <p>Discussion: Unlike competitors Intel and AMD, NVIDIA is much more a computing company than a chip company. Its shift to selling servers, its cloud initiatives, and its CUDA software all bear this out. Huang is positioning NVIDIA to dominate computing writ large. Its business model allows customers to pick and use what they need from NVIDIA's various hardware and software offerings. The result is that NVIDIA has insight into how almost everyone is working on AI applications and what their needs are. Huang explained that he has configured the governance of the company to support such foresight. In short, they focus on peripheral vision and the dissemination of information. Hence, Huang has a high number of direct reports who each provide him with regular updates on what they hear from their customer interactions. Our discussion was useful in understanding that NVIDIA's prowess is not solely a function of Huang's astute decision-making and widespread respect for his vision - it is also thanks to the strength of the company's organisational culture and its genuinely non-siloed structure. NVIDIA, therefore, tends to know what the most interesting thing that is 'happening' is. This is a kind of secret sauce in building the next generation of products, placing the company consistently ahead of competitors.</p> <p>Outcome: Our meeting with senior management was valuable in understanding how NVIDIA is structured and governed for foresight and what this implies for the company's competitive advantage.</p>

Company	Engagement Report
Olympus Corporation	<p>Objective: We met with the CEO of Olympus, Stefan Kaufmann, to understand Olympus' status in the diagnosis and remediation of issues raised in recent warning letters from the FDA. This meeting sought to cover the underlying drivers of the FDA complaints and establish a starting point for future monitoring and potential engagement.</p> <p>Discussion: When Kaufmann assumed leadership, Olympus had three main priorities: innovation for growth, patient safety and sustainability, and productivity. However, following the FDA warnings, Kaufmann elevated patient safety to the top priority. While partially symbolic, this reorganisation was shared to be an important beacon for refocusing the manufacturing and quality assurance functions at Olympus. We questioned the underlying drivers of the FDA complaints, and Mr Kaufmann shared that part of the cause for the FDA letters was a clash between Japanese manufacturing practices and American regulation, as well as disjointed internal systems that led to longer feedback loops. Olympus is currently working on improving the capacity of the quality assurance and product safety team, which Mr Kaufmann now believes to be industry-leading. Mr Kaufmann also acknowledged that strengthening internal information flows between teams could have facilitated more effective issue escalation. To fix this, Olympus are implementing new IT tools building faster feedback loops while attempting to enable a culture where the escalation of issues is more acceptable. Part of the incentives to enable this change include the introduction of product quality-related targets in employee bonuses. There are a lot of moving parts, but we were glad to hear that Mr Kaufmann recognised the importance of change management, rooting out the drivers of these issues and monitoring the changes he has implemented.</p> <p>Outcome: We came away from the meeting positive about the directionality of remediation and with a greater understanding of Mr. Kaufmann's efforts to improve patient outcomes. The meeting also provided insight into Olympus' ongoing efforts to address the FDA's concerns and provided us with some data points for future monitoring.</p>
Reliance Industries Limited	<p>Objective: To assess the company's ambitions, targets, succession planning and future growth opportunities.</p> <p>Discussion: We met with the company as well as other organisations during our recent trip to India. The first meeting focused on a range of topics across telecoms, retail, media and energy, and a follow-up discussion (as part of a wider group) provided further understanding of the New Energy business and the company's climate strategy. Reliance's business areas are energy-hungry, including data centres for telecoms and refineries for the oil-to-chemical business. The company's decarbonisation commitments (Net Carbon Zero by 2030) sit alongside its New Energy investments via integrated solar manufacturing with energy storage, electrolyser manufacturing and green hydrogen production. The company is reviewing round-the-clock power opportunities for each business user, which can include combinations of solar and other green energy. The company sees opportunities to significantly reduce its energy costs once its captive renewable energy is ready. The solar PV manufacturing facility is expected to be ready within the year, and by early 2027, both the solar and battery facilities are expected to be operational and fully integrated. On the question of whether anticipated changes in climate were causing the company to adjust operating practices in any areas, no further information was provided.</p> <p>Outcome: The discussions provided an important opportunity to assess and calibrate the company's ambition, strategy and targets, given poor disclosures on some topics.</p>

Company	Engagement Report
Sea Limited	<p>Objective: We met with founder and CEO Forrest Li and Chief Operating Officer Yanjun Wang in Singapore to discuss management's strategic decision to lean into long-term growth at the expense of near-term profitability.</p> <p>Discussion: Last time we met with Forrest Li in our Edinburgh offices, he suggested that SEA would cap its losses at a breakeven level, beyond which it would happily reinvest in future growth should opportunities arise. That breakeven point has now arrived. Opportunities have also appeared. SEA's ecommerce platform, Shopee, is therefore reinvesting and expanding, translating into top-line rather than bottom-line growth at this stage. However, the stock market appears to dislike this and reads it as a change in strategy. Li believes the market wants SEA to just continue to post linear increases in profit, whereas he believes it is too early in the company's growth trajectory for that. He frames it as a test of reward today versus (larger) reward tomorrow. Given the operational stresses that the company has faced over the past year or so, there had been a risk that the company reined in its risk-taking at the expense of its long-term growth. Reassuringly for long-term investors, Li's remarks suggest that SEA's quick-moving predatory impulse survives.</p> <p>Outcome: Management appears to be executing a strategy that is consistent and on the basis of strengthened operational performance. Of course, the long-term investment case is not without risk. However, our continued access to senior management has been helpful in gaining insights into SEA's strategic decision-making at a time when the stock market appears fixated on the short term.</p>
Tesla, Inc.	<p>Objective: We met with Tesla's head of Investor Relations and its new Chief Financial Officer (CFO), Vaibhav Taneja, following the retiral of Zach Kirkhorn in August. We aimed to understand how Taneja planned to maintain the financial and operations roles Kirkhorn played at the company and how he sought to support Tesla's future growth.</p> <p>Discussion: Taneja discussed his focus on maintaining and growing market share in a higher interest rate environment through continued efficiency to save costs and making the investments needed in auto innovation and other initiatives. Taneja continues to be the Chief Accounting Officer, for which he has identified a team of people to assume his previous responsibilities.</p> <p>Outcome: A new CFO marks a significant change for Tesla. Kirkhorn joined in 2010 and was CFO from 2019. We are pleased to have opened a relationship with Taneja and aim to continue observing Tesla's progress with his executive direction.</p>
Texas Instruments Incorporated	<p>Objective: The purpose of this call was to discuss Texas Instruments' climate strategy and how the company are ensuring a resilient supply of electricity given challenges relating to Texas's energy grid.</p> <p>Discussion: Texas Instruments confirmed work is underway on a post-2025 decarbonisation target (its current one expires in 2025). They explained that this area is of interest to their customers, who are thinking about how they will meet their own climate targets. There may be a risk that, without having a suitable decarbonisation plan, some customers will choose to procure analogue semiconductors from peers who have stronger climate commitments. From a resilience perspective, Texas Instruments highlighted the multiple mechanisms they have in place to ensure redundancy of their electricity supply, such as positioning fabrication plants at the grid intersection of various power generation facilities.</p> <p>Outcome: We are pleased that Texas Instruments is thinking about how its approach to climate will impact its customers and that they have a strategy in place to ensure that operations can continue in the event of future grid failure or outage.</p>

Votes Cast in Favour

Companies	Voting Rationale
BHP Group Ltd - DI, Broadridge Financial Solutions, CyberAgent Inc, Estee Lauder, Microsoft, Pernod Ricard SA	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Estee Lauder	Annual 11/17/23	3	We continued to oppose executive compensation due to the continued practice of granting sizable one-off awards.
Microsoft	Annual 12/07/23	10	We opposed a shareholder resolution requesting a tax transparency report. We believe the company's current disclosures are in line with peers and provide shareholders with adequate disclosure.
Microsoft	Annual 12/07/23	11	We opposed a shareholder resolution requesting a report on the implications of siting datacentres in countries with human rights concerns. We believe the company has a robust framework in place and ranks highly on its governance practices and there is clear evidence of a commitment to protect human rights. We therefore do not believe that supporting this proposal is necessary at this time.
Microsoft	Annual 12/07/23	12	We opposed a shareholder resolution which would mandate third-party political reporting. We believe the requested disclosure is beyond the company's control and seeks to micromanage decisions on the company's third party affiliations.
Microsoft	Annual 12/07/23	13	We opposed a shareholder resolution requesting a report on risks relating to the spread of misinformation and disinformation due to the company's AI. We believe the company's disclosures are already extremely robust on this topic, and it is unclear how this additional report would be additive.
Microsoft	Annual 12/07/23	5	We opposed a shareholder resolution requesting a report on gender-based compensation and benefits inequities. We believe the company's disclosures are fulsome and do not believe this is a material risk to the business.
Microsoft	Annual 12/07/23	6	We opposed a shareholder resolution requesting a report on risks of omitting viewpoint and ideological diversity from the company's diversity policy. Currently the company includes 'political affiliation' as a category in its anti-discrimination policy and provides information on its policies and processes working to mitigate discriminative behaviours. We believe the company's current efforts are sufficient.
Microsoft	Annual 12/07/23	7	We opposed a shareholder resolution requesting a report of government takedown requests by the United States government. The company currently discloses data regarding government takedown requests and the quality of this reporting is not lacking or out of line with peers.

Company	Meeting Details	Resolution(s)	Voting Rationale
Microsoft	Annual 12/07/23	8	We opposed a shareholder resolution requesting a report on the risks to the company of its perceived involvement in the development of weapons for the military. We don't view this to be a material risk for the business currently.
Microsoft	Annual 12/07/23	9	We opposed a shareholder resolution requesting a report on the company's retirement funds' management of systemic climate risk. We do not believe this is a material risk for the company and think they are doing enough by offering employees a range of investment options.
Companies		Voting Rationale	
Pernod Ricard SA		We opposed the resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.	

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

Company	Meeting Details	Resolution(s)	Voting Rationale
Estee Lauder	Annual 11/17/23	1a	We withheld support from the re-election of on incumbent compensation committee member, who is also the lead independent director, due to continued unaddressed concerns over the executive compensation practices.

New Purchases

Stock Name	Transaction Rationale
Block Inc	Block is a collection of financial services businesses linked by a common mission: to advance economic empowerment and inclusion. The two most important businesses today are Square, which enables merchants to accept card payments and provides ancillary software services, and Cash App, a personal payment app. We think both have attractive competitive positions and growth trajectories. Square can continue to drive penetration in merchants, offer more software services, and expand internationally, which should be helped by the company's acquisition of buy-now-pay-later firm AfterPay. Cash App is still in its infancy, and can expand beyond peer-to-peer payments to other financial services such as savings and perhaps, one day, loans. Block is however more than simply these two businesses. Stewarded by the leadership of Jack Dorsey, we expect the company to continue to innovate and nurture new businesses and revenue streams. We're excited by what Block might look like in 5 or 10 years' time.
CATL 'A'	CATL is a Chinese manufacturer of lithium-ion battery cells with a dominant market share both in cathode chemistries (LFP) and form factors (prismatic) which are poised to grow through electric vehicle uptake and energy storage. The company is a national champion in China, which is the world's largest EV and electricity generation market, and it is well aligned with the state's decarbonisation objectives and emphasis on Chinese self-sufficiency in the hard sciences and technology. Beyond its home market, CATL's future growth could be further fuelled by its operations in Europe where it already has a manufacturing presence and North America, where it currently commands a 15% market share. We like the magnitude and duration of the growth opportunity combined with CATL's market leadership, which we believe can prove defensible thanks to the company's partnerships with traditional automakers (e.g. Volkswagen and Ford) who are making the shift to electric vehicles and relying on CATL's cell-to-pack battery technology to do so. The share price currently ascribes little value to its ex-China growth prospects which has provided us with an attractive entry point.
LVMH	We have taken a new holding in the world's largest luxury conglomerate, LVMH. Thanks to the excellent capital allocation skills of long-term owner-manager Bernard Arnault, today the group manages 75 luxury brands. These include many of the oldest and best-known in the world, such as Louis Vuitton, Dior, and Tiffany. We believe LVMH is supported by powerful growth drivers such as rising affluence across Asia and the growing trend for luxury goods purchases to be made online. LVMH is a quality compounder that has built a considerable competitive moat based on excellent operational execution, skilful capital allocation, and diversification across different types of luxury goods. The company enjoys the benefits of scale having reached a size that makes it increasingly difficult for the company to be disrupted by competitors. The company is now trading at a more attractive valuation than earlier in the year, making the upside case easier to model.
PDD Holdings Inc	We have taken a new position for you in Chinese e-commerce platform, Pinduoduo (PDD). PDD offers a socially-driven, entertaining and low-cost shopping experience for its 900 million users in China. It operates both a core e-commerce channel where take-rates are rising, and DuoDuo Grocery where it is becoming an increasingly relevant seller of fresh-food groceries in China. Its group-purchase model results in better deals for consumers. We believe there is an attractive opportunity as PDD continues to take market share from competitors and increase its take-rate by broadening into branded goods and new categories. Furthermore, it has recently launched an international platform, Temu, providing another channel for growth. We believe that a combination of broad investor sentiment surrounding China, along with the misunderstanding that the market is applying to PDD's business model (due to immaturity, and the fact that it's not been profitable for long) makes this an attractive opportunity where we have a differentiated view. With the share price off ~48% from peak in early 2021, we believe this is a good time to take a new holding.

Texas Instruments	<p>Texas Instruments is the leading global supplier of analogue chips, which are semiconductors that process real-world signals like light, heat, and sound. In the decade ahead, we expect to see continued strong demand for the company's products, driven by secular trends such as the digitisation of industrial and automotive functions, the ongoing building of data centres, and the electric vehicle revolution. These trends require increasing numbers of analogue chips and Texas Instruments is poised to benefit. Recently the company's profits have been impacted by higher depreciation and it making significant investments in new production facilities. This capital expenditure has impacted free cash flow in the short-term but our view is that it will ensure a cost advantage over the next decade. We believe we are close to the nadir for free cash flow and see this as an opportunity to invest in a high-quality company with a differentiated culture that is managed with the long-term interests of shareholders in mind.</p>
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Complete Sales

Stock Name	Transaction Rationale
Farfetch	<p>After careful consideration, we have decided to sell the modest holding in Farfetch, the online luxury goods platform. Our original investment thesis centred around the company's investments in technology and forging partnerships, which aimed to create a leading platform in an industry with significant potential to move online. However, recent rumours surrounding its potential go-private deal, the subsequent delay in releasing its Q3 earnings report and the withdrawal of previous guidance have raised concerns about the company's future prospects and management's ability to execute its strategy effectively. Given these concerns and the lack of visibility into the company's future path, we have decided to divest from Farfetch.</p>
Illumina	<p>Following a period of regulatory scrutiny and management changes at the company, we have decided to sell the holding in gene-sequencing company Illumina. Bought for the portfolio in 2019, we believed that Illumina was at the forefront of a tipping point in gene-sequencing adoption and technology to make it more accessible and affordable. Illumina has played a key part in lowering the costs of gene sequencing - accelerated by the pandemic. However, we believe that competition in the core genome sequencing market is rising, and the regulatory fall-out from Illumina's attempted, and failed, acquisition of diagnostics business Grail, has caused us to lose confidence in the Board and management.</p>
Rio Tinto	<p>We have decided to sell the holding in Rio Tinto, the metals and mining giant, due to recent management changes and strategic shifts that have led us to reassess our investment thesis. The new CEO and chair's intentions to ramp up capital expenditure and engage in mergers and acquisitions in the coming years, combined with their limited experience in the mining sector, raise concerns about their ability to maintain capital discipline and avoid value destruction. Additionally, Rio Tinto's plans to build the Simandou iron ore project in West Africa carry significant financial and reputational risks, given the company's troubled history with projects like Juukan Gorge and the findings of the Broderick report. The iron ore industry's capital discipline, which has been a key driver of profitability in recent years, is showing signs of weakening, potentially limiting shareholder returns. In light of these concerns, we have decided to divest from Rio Tinto and evaluate alternative investment opportunities.</p>

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