

LTGG Quarterly Update

31 December 2023



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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.

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Product Overview

Long Term Global Growth is a very long term, concentrated global equity strategy focused on investing in exceptional growth companies from around the world. The approach is committed and expressly long term because we believe that investing in companies with the scope to grow to multiples of their current size over the next decade has the potential to transform the returns achieved for investors over time.

Risk Analysis

Key Statistics	
Number of Holdings	37
Typical Number of Holdings	30-60
Active Share	92%*
Annual Turnover	11%

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

2023 provided an inflection point: inflation came down, interest rates probably reached a peak, and the world economy continued to grow. The extreme headwinds for long-duration growth investors abated; tailwinds now beckon

We have stuck to our optimistic and high-growth mantra. Portfolio activity saw reductions or sales of longer-held holdings with moderating growth. The alpha was recycled into new plays on secular transformational growth stories

The LTGG portfolio is lasered in on the future, and, with the clouds of macro fears parting, the emanating enlightenment shows the future is arriving today



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

As a child in the 1980s, my favourite TV program was called *Tomorrow's World* (well, first equal with *The A-Team*). *Tomorrow's World* aired on BBC1 for almost 30 years before being axed for declining viewership in 2003.

I loved it. We got this glimpse of possible futures through live demonstrations (which occasionally went amusingly awry) of new gadgets which let your imagination run. The show got a lot of things wrong, of course, but a few very right – like heralding the mobile phone in 1979, and the home computer in 1967.

But I always had a bone to pick with them, because we were promised robots, and they never appeared. The disappointment was compounded by my avid reading of Isaac Asimov's Robot novels and his 3 laws of robotics, which I can still recite by heart:

1. A robot may not injure a human being, or through inaction, allow a human to come to harm
2. A robot must obey orders given to it by human beings, except where such orders would conflict with the First Law
3. A robot must protect its own existence as long as such protection does not conflict with the First or Second laws.

Alas, R Daneel Olivaw, C-3PO, KITT in Knight Rider, and other famous humanoid creations remained, seemingly forever, a far-off fiction.

Being involved in LTGG is a bit like being an erstwhile presenter on *Tomorrow's World*. It is like having a go at predicting the future and occasionally spotting something relatively unknown that goes on to become an integral part of our lives, making multiples of the initial investment for clients as a result.

When they assess 2023, most investors will not have *Tomorrow's World* or Isaac Asimov's novels in their minds. They may well see the year as containing a momentous inflection point, but in macro terms. After all, inflation obediently descended towards Earth like a used rocket and interest rates have probably reached their peak. In the meantime, the world economy may continue to grow at 2.5% or more. This – now – is a comfortable combination for growth investors, but one that the market considered highly unlikely until very recently. Thus, the market's prevailing narrative backdrop is swinging from fear-of-further-rises and stay-away-from-long-duration-growth, to anticipation that the next move might be down... so, remind me about some of these growth stories again?

We'll take it, as such a shift in frame of mind no doubt plays into LTGG's hands and has already heralded a rebound in performance after the 9-month cataclysm

that began in Q4 2021. But "macro inflection" – felicitous as it is – is not how we would define the year. For us, 2023 was the year that *Tomorrow's World* became Today; it was the year the transformational growth stories resumed their conquest; and it was the year our long-promised robots finally arrived.

Style Check

We'll get back to the future (*sans* DeLorean), but it is worth pausing first for a "style check". When a manager's stated style (in our case, optimistically owning the highest growth companies with the furthest away payoffs) has experienced pariah status, there is a danger that the beleaguered zealot says "Enough!" and steers towards the middle ground. This is as understandable as it is undesirable.

We'd like to reassure our clients on two fronts: that we have kept our mojo as the most optimistic long-term growth investors they have, but, not so arrogant as to dismiss 21/22 as pure aberration, we've made a couple of refinements to our process along the way.

A Reminder of the refinements we have made

First, we've instituted an R&D bucket for holdings that are early-stage businesses. Our rule is that we can't add to R&D holdings until they have passed certain operational milestones (usually on the way to profitability or being free cash flow positive) and therefore emerge from the R&D bucket. This is to prevent us from adding to such holdings merely on share price weakness, which we did with the mini debacles of Beyond Meat, Peloton, and Carvana when the businesses had not sufficiently de-risked. We have set a limit of 10% of the portfolio to be in R&D holdings at a given time (it's currently around 6%).

Second, we've accommodated an increased awareness of valuation extremes. This doesn't mean we are now only looking for "quality growth" companies on a low double-digit PE. But it does mean we assess a quarterly valuation "heat map" from our Risk team, and it does mean a bit more calibration of how bullish we are required to be to see sufficient upside in our holdings (see below – there were several reductions to familiar holdings on this basis in recent months). In 2023 we wrote on, discussed, and very much liked Brazilian financial disruptor Nubank. When we first looked at Nubank it was on 3.5x book value. By the time of the final stock discussion, it was up to 4.4x. We decided that was simply too much for an EM bank, but we resolved to look out for a more attractive entry point. A couple of years ago we'd have bought it in at 4.4x and kept going if it went up.

Third, we sharpened up our thematic risk assessment Euler diagram. Instead of simply having themes like “Ecommerce” or “Energy Transition”, we’ve specified the *contentions* (currently 14 in all) that underpin each group of holdings, for example, “The demand for high-end chips will continue to grow” = ASML, Nvidia, Advanced Micro Devices (AMD). And we can keep revisiting them to see if we still believe in the contention and why. The nuance puts us on the spot a bit more lest we become, thematically, too comfortably entrenched.

Mojo Intact

The portfolio activity in the last year should leave no one in doubt as to the continuing go-for-it optimism and high-growth personality of LTGG. We sold or reduced several older holdings that now need a second or third act to keep going, and put money into new, very exciting ones.

As previously with Tesla and Amazon, we recycled alpha out of Nvidia when it crossed the 10% max holding size to buy new holdings (we first purchased Nvidia in 2016 and continue to be very bullish on it, but it makes sense to recycle from a \$1trillion market cap company into some smaller ones, all with “house” money). We also took more out of Tesla a couple of times, which is now a c.4% holding. In total over the years, we put c.6% into Tesla (last addition in 2016) and have taken more than 20% out of it. It still has significant upside, but probably not a multi bagger from here without major success from Full Self-Driving.

We also sold out of Illumina and Salesforce entirely. We’d held both for more than a decade, but there are no sacred cows. At Illumina, a combination of management missteps (multiple Grail fiascos and no accepted accountability from them), underwhelming growth and increased competition made us sell entirely. In the case of Salesforce, it was mainly a case of growth staleness making sufficient upside too hard work from the current valuation.

From these proceeds, we added to younger existing holdings or entirely new stocks that are all high growth and early in their development. For existing holdings, we topped up SEA, the South East Asian online retail and gaming company, and Adyen, the beaten-up payments solution provider. Both these companies had very weak share prices but – crucially – they had *also* made operational progress. It had not escaped their notice that unprofitable or Free Cash Flow negative businesses were being particularly singled out for drubbings. They both initiated self-help, alongside a couple more of our holdings like Shopify and Coupang, and all quickly ushered the financial metrics in the right direction – a

Smithsonian adaptation of the sort we were lauding in the last report. But all these companies are fast growing and very exciting – indeed, we think Adyen may have the biggest payoff of any stock in the portfolio.

So, at the portfolio level, our portion of companies that were either unprofitable or FCF negative fell from high teens to 8% of the portfolio in the last 6 months. We are confident they are still investing for growth, but also striking a pragmatic tone. And yet at the same time, by recycling alpha from a few giants, we tilted the portfolio towards some younger holdings that have a long runway of high growth ahead of them before even needing to consider a second act.

Aye Robot

The new buys of the last 12 months – Joby Aviation, Datadog, Enphase, Samsara, Mercado Libre – are exciting, high-growth companies at an early stage in their ascent. They won’t all work, but if a couple of them prove to be Tomorrow’s World hits, then the returns to shareholders will be huge.

Having inherited a wholesale business from his parents, Richie Cohen got fed up with the perennial losses and set about designing warehouse automation to save costs. Twenty years later Symbotic (an abbreviation of “Symphony of Robots”) offers a system that would make Isaac Asimov smile. A typical large warehouse goes from needing 100 humans to 10, and the robots do the rest. Walmart can’t get enough of Symbotic’s systems – the next three years of installations are fully booked out by them alone. One key for Symbotic to grow really fast is reducing the system installation time (it was 30 months, now 22 months, and they are aiming for 6 months). Research on this company continues.

In the meantime, Amazon increased the number of robots in their own distribution centres by 45% year on year, to 750,000. We looked at Keyence too (partly *per se*, partly as a competitor to Symbotic), and we are very interested in Cognex, which is a fast-advancing machine vision company: 30 million people worldwide are employed in visual inspection. And Samsara’s (purchase in April 2023) clever dashboards take fleets of dumb vehicles and smarten them up. The robots are finally coming.

Our client conference at Gleneagles in September 2024 will have a Renaissance theme: there are a number of parallels between today and Florence in the late 16th Century. Joby Aviation’s silent electric helicopters may not be four centuries ahead of their time like Leonardo’s famous sketches, but they are still straight out of the

opening scene of Blade Runner. And one day they'll be self-piloted too.

But first, there are Federal Aviation Authority hurdles to overcome (Joby has a lead on this vs competitors) for the human-piloted version. The initial revenues will come from deliveries to the US military in 2025, after which the commercial rollout should begin with JFK to Manhattan in 6 minutes for Delta Airlines, followed by greater Los Angeles.

A full precis of LTGG's plays on AI requires a paper in itself, but from Nvidia's high-end chip monopoly to Tesla's FSD and Robotaxis, to AMD, AWS, Cloudflare, Datadog and ASML, we think at least one-quarter of the LTGG portfolio is strongly linked to this theme. Helpful, then, that the BG investor rotating into LTGG later in January¹ spent the last six years quietly running our own AI fund experiment. We are convinced that we are witnessing a rare and momentous "deep transition" for the world akin to the Industrial Revolution: society is at an early stage of digitisation, and, as with the Renaissance, conflicts will arise (malevolent disinformation as our biggest threat aside from climate change?). This portfolio is clearly facing forward, and we will have more futuristic bets to come.

China

No market more embodies both the spirit of the future and a nagging sense of conflict than China. In September, in Wyoming, at a renowned investor symposium, one of our LTGG portfolio managers witnessed a stunning moment of collective cognitive dissonance. In response to a "Who is bullish on China?" question, no participants answered affirmatively. Striking uniformity, perhaps, but not the punchline. In response to the follow-up – "Who can *imagine* a scenario where they *would* become bullish on China?" – still no one! Now, how can that be?

You don't need much imagination to be more positive, especially given the fact that everyone else, at least in the US, is so negative. Surely there are a few contrarians out there? We have 1/6th of the portfolio in Chinese companies today compared to almost 1/3rd at the peak, but the companies we own are a significant part of the portfolio and we see several reasons for enthusiasm. The first is... tea leaves and the reading thereof. Like it or not, this is a factor (and the fact such deciphering of signals is required, let's be clear, is not a positive). But our sources, from company chairpersons, to academics, to politicians, to third-party research outfits and our own on-the-ground analysts, mostly see

the direction of government moves in recent months as favourable. This would fit with the pattern we've seen before, namely of a severe government clampdown (on some aspect of free market capitalism), then a row-back when the adverse repercussions become apparent. In the private-public tug of war, 2024 onwards presents, in our view, as a steady state or better.

Second, and perhaps most importantly, the overall GDP growth in China (4% or so from here? Still rather good for the world's second-largest economy, surely?) does not matter much to the right growth stories. There are three areas of the Chinese economy with strong tailwinds for years to come: green energy and associated energy transition, semiconductors, and all things AI. If you add in domestic healthcare champions, then all our holdings are covered by a combination of secular and government-willed tailwinds.

And third – we permit our clients a wry smile at this coming from us – valuations for growth in Chinese companies are so low. The valuations per se (about 11x PE for the Chinese market, roughly half of the S&P) are not enough reason for us to invest - we need growth stories coming through too. But we have those growth stories regaining momentum (some of them never lost it) like Tencent, and even after a better period in share price terms, the likes of Tencent and Pinduoduo are on less than 20x near term earnings while boasting strong growth, high profitability and war-chest balance sheets.

So, we have a very cheap market that everyone hates, a government leaning more favourably, an economy with clear areas of secular growth well above the already more than respectable 4% GDP growth, in a country that produces 75% of the world's civilian drones, 63% of the planet's lithium batteries, 60% of wind power equipment, 88% of the world's solar panels, publishes more science papers than any other country in the world, files more patents than any other country, outspends every country on R&D... and yet no investors can even imagine a scenario that would make them bullish? We beg to differ.

Conclusion

For equity investors, the great misfortune of 2008's Global Financial Crisis was not the huge drawdown of that *annus horribilis* per se; it was the impact on investors' mentality afterwards. A number of clients spent the years *after* 2008 preparing for 2008 ("we need more downside protection"), and they missed out on more than a decade of stellar returns from growth equities in an era of exhilarating transformations (from 30 September 2008 LTGG returned 20% p.a. absolute and +10%p.a. relative over the next 13 years).

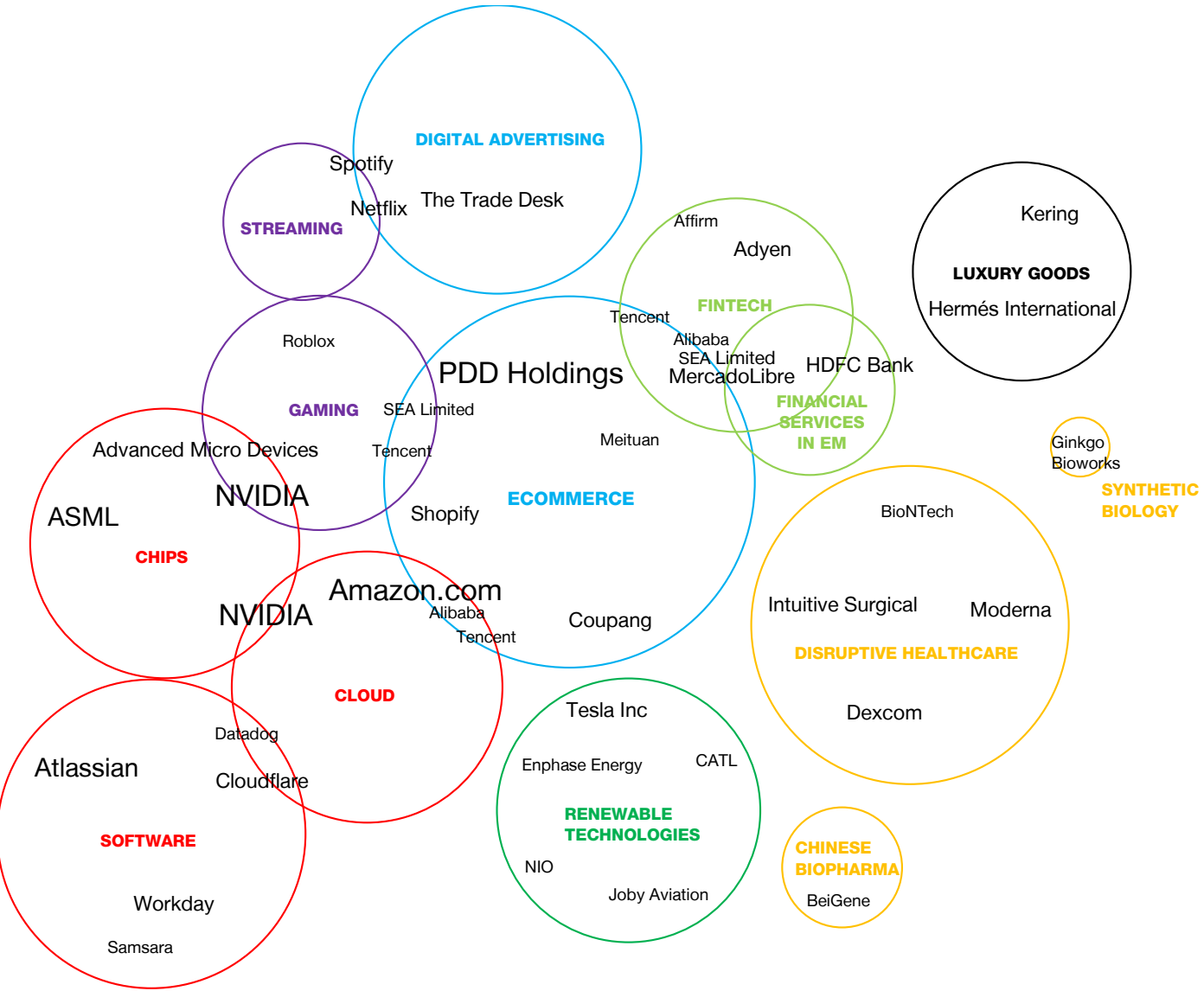
¹ Official communication on this will be emailed to clients by the end of January 2024.

Fast forward to today: could something similar happen again after the *annus horribilis* of 2022? Investment committees have been fretting over strategic asset allocation in a “high inflation and high interest rate environment”, just after the run-up in both. That uncomfortable ride is already in the past, and the pertinent question is about what happens from *here*.

“Once you have tasted flight”, Leonardo da Vinci said 400 years ago, “you will forever walk the earth with your eyes turned upwards”. So, our answer to what happens next is emphatic: the transformational growth stories of the next decade – robustly intact - will power on. They remain intact regardless of the macro backdrop, which is improving and proving the naysayers wrong anyway; they are undervalued, and they are about to return to investors’ front-of-mind. Front of mind since we are experiencing a deep transition somewhat akin to the Renaissance itself. Front of mind, because when we see a warehouse slickly run by robots, silent electric helicopters dropping athletes at the Paris Olympics, and Cybertrucks driving themselves, we realise that Tomorrow’s World is arriving today. And there are few portfolios more dialled into tomorrow than LTGG.

The LTGG Euler Diagram

The diagram below represents our current view of stock concentrations in the LTGG model portfolio. We have identified what we believe to be the key driver(s) of each stock and have grouped stocks as appropriate. Circle sizes are based on the aggregate stock holding weights in the portfolio and some stocks are represented in more than one circle. The font size is indicative of the size of the holding in the portfolio – the larger the font the larger the position within the portfolio. We use this diagram as an input to our consideration of risk and diversification in the portfolio and we review it on an ongoing basis. The classifications are subject to change over time as our views evolve.



Performance Objective

No formal performance objective but typically compared with MSCI ACWI Index or FTSE All World Indices achieving +3% p.a., net of fees, over typical global equity index over rolling 5 year periods.

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	11.4	6.4	5.0
1 Year	29.5	15.9	13.6
3 Year	-6.9	8.7	-15.6
5 Year	15.3	12.2	3.1
10 Year	16.6	11.4	5.2
Since Inception	13.8	10.0	3.8
USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	16.3	11.1	5.2
1 Year	37.2	22.8	14.4
3 Year	-9.0	6.2	-15.3
5 Year	15.3	12.3	3.1
10 Year	13.6	8.5	5.1
Since Inception	11.7	8.0	3.7
EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	11.5	6.5	5.0
1 Year	32.6	18.7	13.9
3 Year	-5.9	9.9	-15.8
5 Year	16.1	13.0	3.1
10 Year	16.1	10.9	5.2
Since Inception	12.4	8.6	3.7
CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	13.5	8.4	5.1
1 Year	33.6	19.5	14.0
3 Year	-8.0	7.5	-15.4
5 Year	14.5	11.5	3.1
10 Year	16.1	10.8	5.2
Since Inception	11.6	7.9	3.7
AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	10.0	5.1	4.9
1 Year	36.4	22.1	14.3
3 Year	-5.2	10.7	-15.9
5 Year	16.1	13.0	3.1
10 Year	16.7	11.5	5.2
Since Inception	12.4	8.7	3.7

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

Inception date: 29 February 2004

Figures may not sum due to rounding.

Benchmark is MSCI ACWI Index.

Source: Revolution, MSCI.

The LTGG 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 (%)	29.0	95.8	3.4	-39.7	29.5
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 (%)	34.1	102.1	2.4	-46.4	37.2
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 (%)	36.6	85.4	10.2	-42.9	32.6
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 (%)	27.3	98.5	1.6	-42.5	33.6
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 (%)	34.3	84.1	8.7	-42.6	36.4
Benchmark (%)	27.5	6.4	26.3	-12.0	22.1

Benchmark is MSCI ACWI Index.

Source: Revolution, MSCI.

The LTGG composite is more concentrated than the MSCI ACWI Index

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 December, 2023

Stock Name	Contribution (%)
PDD Holdings	1.7
Adyen	1.2
Shopify	0.8
Dexcom	0.7
Advanced Micro Devices	0.6
Roblox	0.6
ASML	0.6
Affirm	0.6
Cloudflare	0.5
Netflix	0.4
Meituan	-1.0
The Trade Desk	-0.7
CATL	-0.6
Moderna	-0.5
Kering	-0.4
Tesla Inc	-0.4
Illumina	-0.4
Coupang	-0.3
Biontech	-0.3
Microsoft	-0.3

One Year to 31 December, 2023

Stock Name	Contribution (%)
NVIDIA	5.6
PDD Holdings	2.2
Shopify	1.7
Tesla Inc	1.7
Amazon.com	1.5
Spotify	1.4
Atlassian	1.4
Cloudflare	1.1
Netflix	1.0
Advanced Micro Devices	1.0
Moderna	-3.1
Meituan	-2.9
Illumina	-1.4
BioNtech	-1.3
CATL	-1.2
Kering	-1.1
Microsoft	-0.9
Apple	-0.8
BeiGene	-0.7
Meta Platforms	-0.7

Source: Revolution, MSCI. LTGG composite relative to MSCI ACWI Index.

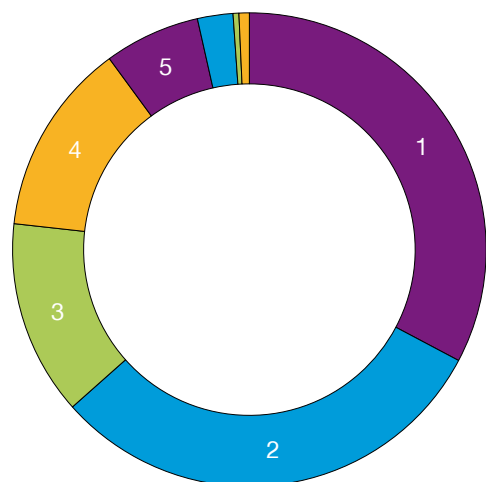
The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions to the portfolio's performance and a description on how the attribution is calculated 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
NVIDIA	Designer of Graphics Processing Units and accelerated computing technology	7.1
PDD Holdings	Chinese e-commerce platform focused on social commerce	6.5
Amazon.com	E-commerce, computing infrastructure, streaming and more	6.4
ASML	Semiconductor equipment manufacturer	4.5
Atlassian	Collaborative and project management software	4.1
Dexcom	Continuous glucose monitoring technology for diabetes management	3.8
Shopify	Cloud-based commerce platform provider	3.6
Tesla Inc	Electric vehicles, autonomous driving technology and energy solutions	3.5
Adyen	Online payments platform	3.4
Cloudflare	Web infrastructure and cybersecurity provider	3.3
Total		46.2

Figures may not sum due to rounding.

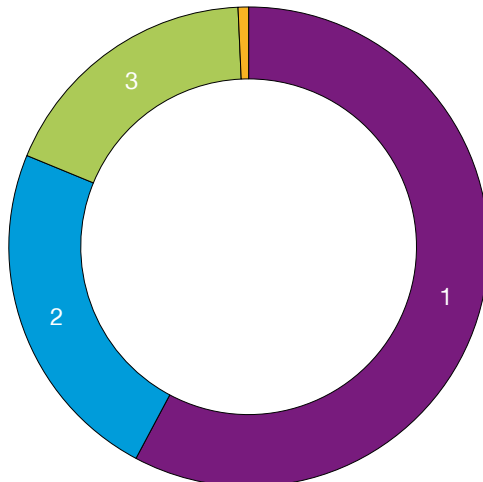
Sector Weights



	%
1 Information Technology	32.8
2 Consumer Discretionary	30.7
3 Health Care	13.3
4 Communication Services	13.2
5 Financials	6.5
6 Industrials	2.4
7 Materials	0.4
8 Cash	0.7

Figures may not sum due to rounding.

Regional Weights



	%
1 North America	57.8
2 Emerging Markets	23.4
3 Europe (ex UK)	18.1
4 Cash	0.7

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	2	Companies	2	Companies	None
Resolutions	16	Resolutions	2	Resolutions	None

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

The Principles for Responsible Investment (PRI) has released the results of its 2023 survey. Baillie Gifford has retained a 4/5 star rating.

We remain of the view that companies who align with ever-evolving societal and environmental expectations will likely have higher odds of success over our investment timeframe.

Company Engagement

Engagement Type	Company
Environmental	Amazon.com, Inc., Contemporary Amperex Technology Co., Limited, DexCom, Inc., Hermès International Societe en commandite par actions, Joby Aviation, Inc., Samsara Inc., Tencent Holdings Limited
Social	Amazon.com, Inc., DexCom, Inc., Joby Aviation, Inc., Netflix, Inc., Tencent Holdings Limited, Tesla, Inc.
Governance	ASML Holding N.V., Adyen N.V., Alibaba Group Holding Limited, Amazon.com, Inc., Atlassian Corporation, BioNTech SE, Contemporary Amperex Technology Co., Limited, Enphase Energy, Inc., HDFC Bank Limited, Hermès International Societe en commandite par actions, Joby Aviation, Inc., Kering SA, Moderna, Inc., NVIDIA Corporation, Samsara Inc., Sea Limited, Shopify Inc., Tencent Holdings Limited, Tesla, Inc.
Strategy	Amazon.com, Inc., Tesla, Inc.

Company	Engagement Report
Adyen	<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	<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	<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
BioNTech	<p>Objective: We met with founder and CEO Ugur Sahin to discuss his strategy for the biotechnology company as it grapples with slowing demand for its Covid-19 mRNA vaccine. More specifically, we sought to explore criticisms that the management team is too stolidly academic and insufficiently commercial.</p> <p>Discussion: Sahin was clear that BioNTech's focus for a decade prior to the Covid-19 pandemic was on how the company could massively improve cancer treatment. mRNA technology was just one output of that approach. In his view, mRNA will account for only around a fifth of cancer therapies a decade from now - i.e. a combination of different therapies and technologies is required for a truly curative approach to cancer. Hence the recent acquisition of artificial intelligence company Instadeep. Sahin is positioning the company such that a decade from now, a patient's tumour can be sequenced and analysed simultaneously in the cloud, leading a BioNTech algorithm to instruct whichever facility with idle capacity to 'print' a vaccine for next-day delivery. Would regulators be comfortable with the black box of AI designing a cancer vaccine? Sahin underlined that the flipside is that strides in AI may eventually mean it becomes increasingly unsafe to have any human component in mRNA design.</p> <p>Considering the above, BioNTech's culture is unapologetically rooted in fundamental science. If some would dismiss them as closet academicians, then he takes that as a sincere compliment. Sahin concedes that the company must mature and hire those with sufficient adaptability to translate the vision into commercial success (and cease whichever projects are not working). But he also sees his role as evidencing to employees that the CEO cares profoundly about deep research. The mistake, though, would be to assume that this relentlessness on science comes at the expense of commercial steel. Sahin believes that big pharma is asleep, and BioNTech has a narrow window of opportunity to buy or build the next generation of assets that will become the standard of care and backbones for future combination therapies.</p> <p>Outcome: While the company is still early in its journey to transform cancer treatment, our discussion with Sahin was useful in gaining confidence around the importance of balancing deep research and commercial acumen in the management team.</p>
CATL	<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
Enphase Energy	<p>Objective: We used our meeting with CEO Badri Kothandaraman to take a closer look at Enphase's corporate culture.</p> <p>Discussion: Enphase's success can be attributed to a rare combination of relentless product innovation and customer obsession. The latter featured prominently in Kothandaraman's articulation of Enphase's culture, whereby customers' net promoter scores form part of executive compensation at the company. However, customer obsession is in service of product innovation. Kothandaraman described that learning and creating new things is core to him as a leader. He confessed that only the product drives him, nothing else. His core philosophy is that with a great product, the financials will follow. Hence, he works hard to avoid prematurely shutting down ideas, and he insists on all-hands Friday morning meetings to discuss new innovations. The governance of the organisation has no more than six layers between the CEO and junior employees, with an optimal number of eight direct reports for any manager. Our impression from our conversation is that what actually distinguishes Enphase's culture is that it is hard-driving and unforgiving. Kothandaraman is restless, domineering and relentlessly hard-working. Only excellence is accepted. That is how they have succeeded to date. Enphase's culture is not an abstract exercise; it's about driving results.</p> <p>Outcome: We came away from this meeting with a clearer sense of how Kothandaraman and Enphase's culture have underpinned operational progress to date. Enphase's culture and its CEO appear well suited to aggressive capitalisation on a substantial market opportunity. We expect there is more for us to learn about Enphase's culture in the future.</p>
Hermès International	<p>Objective: We met with Investor Relations, including a new hire focusing specifically on ESG issues, to (a) gain insight into actual progress with its ambitious targets for positive impacts on carbon emissions and biodiversity and (b) the application of ESG criteria in executive compensation.</p> <p>Discussion. The company continues to be able to provide specific examples of real-world impact. In real estate, it has recently completed two new workshops in France that are among the first to be certified energy and carbon-positive. The further development of its biodiversity research has reinforced the company's view that systems are coming under increasing stress globally. The strategic response is to extend vertical integration in the supply chain to ensure access to materials of sufficient quality. The engagement of the Board is apparent in more training and more hires - particularly in materials science. Discussion on the inclusion of ESG metrics into remuneration indicated that this is now extending beyond top executives and into the métiers.</p> <p>Outcome: The discussion provided assurance for our view that the company is a leader in environmental research and management. We were pleased to respond to the company's interest in our views on integration into executive remuneration. Conversations such as this will continue.</p>
Moderna	<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>

Company	Engagement Report
NVIDIA	<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>
Samsara	<p>Objective: In a meeting at our Edinburgh offices with Samsara, the connected operations platform for tracking vehicle fleets and other industrial assets, we sought to understand how the company is addressing union sentiment regarding some of its products. In a subsequent meeting, we examined how Samsara is enabling emissions reductions for its customers and the potential opportunities that decarbonisation could create for the company.</p> <p>Discussion: We had previously discussed union sentiment with Samsara co-founder and CEO Sanjit Biswas, noting that it could represent a bottleneck to growth of Samsara's Safety product in some European markets. Samsara's Safety product uses high-definition dashboard cameras to provide corporate customers with real-time visibility on driver safety, but there have been reports of drivers reacting negatively to what they view as invasive surveillance. In our recent meeting with CFO Dominic Phillips, he reiterated that this has not been a problem for Samsara in the US, despite short-seller commentary to the contrary. Large unions are very active across the majority of Samsara's customer base. Samsara has generally received their support because its safety product provides valuable exoneration for drivers who might otherwise be penalised for accidents they did not cause. The company's end-user surveys suggest that union workers' priority is to understand how any video footage and data on them is being used, hence Samsara ensures to provide them with transparency and education on this front. On balance, we believe that Samsara's inherent incentivisation of safer driving remains a materially positive contribution to society. With regards to climate change, transport emissions are the largest contributor to US emissions, and approximately a quarter is produced from Medium to Heavy-Duty commercial vehicles - the focus of Samsara's technology. The company estimates it enabled avoided emissions of 1Mt of CO₂e by simply reducing customers' idling times last year alone. Additionally, its EV fleet management tool provides information to optimise charging, battery management, routing, and charge networks. We also learnt that the company is looking to expand coverage to other assets, including cranes, bulldozers, and refrigeration units.</p> <p>Outcome: Our discussions reinforced our view that concern for safety and the environment are inherently integrated into Samsara's culture and business model.</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>

New Purchases

Stock Name	Transaction Rationale
Enphase Energy	Enphase offers renewable generation hardware and software for homes and small businesses. Their products include microinverters, battery storage and EV chargers. Our investment case is that: 1/ as module and battery costs continue to fall, the company will benefit from accelerating distributed solar adoption by providing the "brains" of the system; 2/ barriers to entry on the combination of hardware, software, and installer mindshare are high; 3/ the selloff in the shares due to short-term concerns on interest rates provides a compelling entry point on a vast long-term growth opportunity to reinvent the grid from the inside out, increase energy independence, and reduce reliance on fossil fuels.

Complete Sales

Stock Name	Transaction Rationale
Illumina	Illumina has disappointed over the last few years in terms of growth rate, margins, management and capital allocation. We exercised patience in the hope that the core business, which remains important to the gene sequencing revolution, would prove its strength and that the situation with the poorly executed acquisition of Grail would ameliorate, but question marks remain on both. Whilst the recent change of management and Board shake-up are belated recognition of a poorly run business, we are concerned about rising competition in the sequencing market and, with better opportunities elsewhere, have decided to sell the shares.

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