BAILLIE GIFFORD | *Sustainable Growth*

Sustainable Growth – monthly bulletin

June 2023

It's a typical 'summer's day' here in Edinburgh – pouring rain. But we Scots know you need only wait a few minutes to be greeted with brighter skies. This confuses many a tourist: umbrella or sunglasses? And it reminds me of the somewhat confused sentiment in global stock markets over the last few years. While June hasn't been a month of 'extreme storms' that rocked stock markets (most recently the mini-US banking crisis in March) it was a bit damp at times, but with intermittent clear skies providing optimism for better weather ahead.

The performance of the Sustainable Growth portfolio over the month reflects a similar sentiment, ending the month modestly behind the benchmark. On the one hand, stock markets continued to grapple with rising inflation and interest rates, along with sustained tension between Ukraine and Russia. On the other, corporate earnings strength, and enthusiasm for the emergence of AI have brought sunnier climes.

The top contributor to relative returns was electric-vehicle (EV) manufacturer Tesla. Shares were boosted by Elon Musk's first visit to China in over three years, further solidifying the company's ambitions in the world's largest EV market. Sales in China are expected to reach another record for the second quarter, helped by smoother post-Covid operations at its Shanghai factory and lower prices. Furthermore, competitors have announced plans to use Tesla's EV charging system across North America. Volkswagen's Electrify America, General Motors, Polestar, and Rivian all joined Ford in adopting Tesla's network, establishing the company as a clear leader and adding an estimated $3bn in revenues by 2030. Finally, general enthusiasm for artificial intelligence (AI) also bolstered the share price. Tesla is already in a superior position compared to many of its peers. It uses AI to help design driverless vehicles, optimise battery performance and in its own manufacturing processes.

Sticking with the theme of AI, NVIDIA, a designer of graphics processing units, was another top performer. It is boosting production to meet surging demand as a result of the emergence of the AI revolution. NVIDIA has an unparalleled competitive position, with around 90 per cent of generative AI programs trained on its hardware. We trimmed the holding slightly this month to reflect the strength in share price, but our conviction remains strong that NVIDIA can help to drive innovation in technological progress.

Elsewhere, the share price of Watsco appreciated following strong financial results. It is the largest distributor of air conditioning systems in the US and is helping educate a huge, fragmented base of installers and contractors on the benefits of more energy-efficient units. Investment in technology used to improve efficiency in its warehouses has led to improved margins and is attractive to new customers. As well as the superior technology Watsco is providing to enable the electrification of heating systems, it also demonstrates commitment to shareholders through its strong track record of having paid dividends consistently for 49 consecutive years, illustrating financial strength returning value to shareholders.

By contrast, the top detractor for the month was Beijer Ref. It is a global distributor of air conditioners and heat pumps but reported disappointing earnings for the first quarter of the year. Compared to Watsco, it is more exposed to the global housing market and has suffered amid a general slowdown in home improvement activity. Despite this, its share price is still up circa 10 per cent year-to-date, and we believe that the company remains well-positioned to weather any short to medium-term slowdown in the market.

The share price of IMCD also weakened in June driven by disappointing first-quarter results. The specialty chemicals business noted higher costs and slower sales growth as the key factors behind such a miss. Its customer base is made up of small and medium-sized businesses, who are finding it more challenging to navigate the weaker macroeconomic environment. We see these factors as short-term headwinds and believe that its expertise in a complex area will be a key driver that enables its customers to reduce their own environmental footprints.

Having lived in Edinburgh for over 10 years, I am used to volatile weather conditions. Likewise, working in the financial industry has also weathered me to the short-term dips and gains of the stock market, no more so than those experienced over the last three years. For your Sustainable Growth strategy, we remain resolutely focused on the longer-term opportunities that exist for the companies we hold. This is key to sustainable investing, as it is over these longer time frames that a company's contribution to society is properly reflected in the share price.

Performance

Annual past performance to 31 June each year (net %)

	2019	2020	2021	2022	2023
Sustainable Growth Composite	5.19	29.71	53.39	-45.20	12.66
MSCI ACWI	6.32	2.64	39.87	-15.37	17.13

Annualised returns to 31 June 2023 (net %)

	1 Year	3 Years	5 Years	Since Inception*
Sustainable Growth Composite	12.7	-1.8	5.3	10.4
MSCI ACWI	17.1	11.5	8.6	10.0

Annualised returns to 31 June 2023 (net %)

	Composite Net (%)	Benchmark (%)	Relative (%)
June 2023	5.1	5.9	-0.7
3 Months	3.3	6.3	-3.1
One Year	12.7	17.1	-4.5
Three Years (p.a.)	-1.8	11.5	-13.3
Five Years (p.a.)	5.3	8.6	-3.4
Since Inception*	10.4	10.0	0.4

Source: StatPro, MSCI

Benchmark: MSCI ACWI Index

Based on the Sustainable Growth composite, in USD

Global Stewardship was renamed Sustainable Growth in 2023. *Inception date: 31/12/2015. Past performance is not a guide to future returns

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