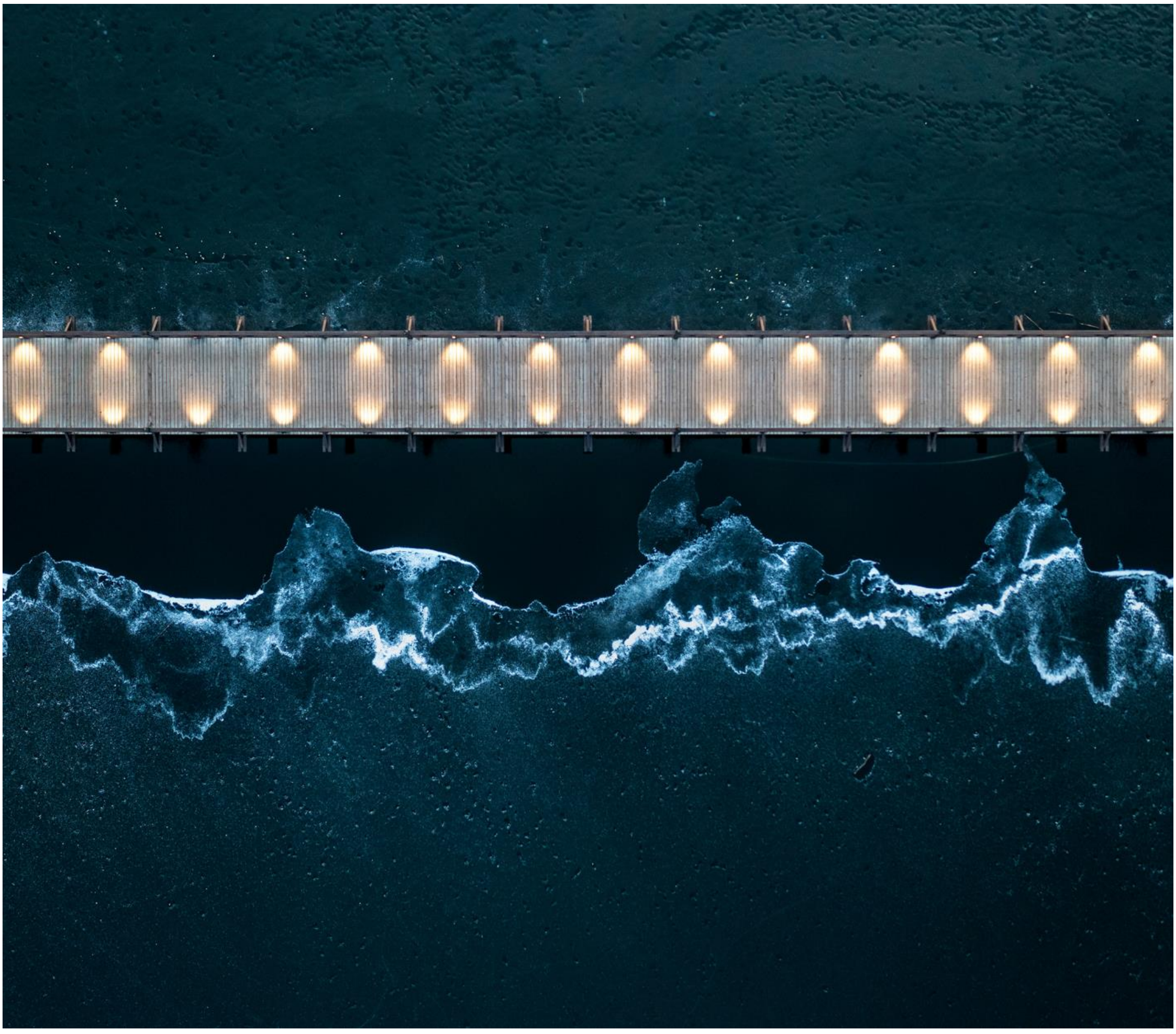
Baillie Gifford™

Europe ex UK Quarterly Update

31 December 2023



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Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

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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

Europe ex UK is a regional equity strategy that aims to generate positive long-term total returns through investment in continental Europe and the Republic of Ireland. We believe the European equity markets offer active managers a broad selection of high-quality companies capable of delivering attractive and sustainable earnings growth for shareholders.

Risk Analysis

Key Statistics	
Number of Holdings	43
Typical Number of Holdings	30-50
Active Share	90%*
Annual Turnover	17%

*Relative to MSCI Europe ex UK Index. Source: Baillie Gifford & Co, MSCI.

Despite the recent outperformance of growth stocks, there still remains some debate about which style investors should be exposed to in the medium term

Debates about style exposures often ignore what big stock market winners look like and what it takes to find them. In Europe, these big winners typically grow revenue sustainably over long periods and expand their profit margins

Our focus is on secularly growing companies which can progress independently of the macroeconomic weather, and these companies are currently attractively valued, in our view

Key Facts

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

Growth or Value? Or both?

The final quarter of a disappointing 2023 was a very strong one for performance. With interest rate cuts potentially on the horizon, growth stocks in Europe were back in vogue and the portfolio outperformed strongly with companies such as Adyen, the Dutch payments company, and Hypoport, an operator of a mortgage origination platform in Germany, among the contributors. While growth has certainly been favoured in the near term, there remains an ongoing debate about which style investors should be exposed to in the medium term.

It is interesting to look back on the 2010s and recall how many proclaimed value investing to be dead and that only growth investing was left. Fast forward to the end of 2023 and it feels as if half of the year has been spent debating the relative merits of each style in any given interest rate environment, and whether it is even possible for a growth investor to outperform when the yield of a 10-year US Treasury Note is around 3.9 per cent. The reality is that value investors often require growth because equity value is determined by a discounted stream of future cash flows. While growth investors, like ourselves, require value because we want to invest in companies whose prospects are mispriced over the long-term.

What's particularly curious about the debate over growth and value is how it encourages short-term behaviours. The desire to categorise and allocate to investors and styles is about optimising, for risk and reward, over a period based largely on macroeconomic factors. It says nothing about what big stock market winners look like, how to find them and how to own them. Instead, we're encouraged to think about how to position according to whichever narrative holds sway at the time.

When we look at studies on big stock market winners, the findings don't tell us to time our style exposures. They typically find that we should look for companies with the growth opportunities and the competitive advantages to sustain revenue growth and profit margin expansion for long periods and invest in them at attractive valuations. This is hardly rocket science, but it's so often forgotten when macro concerns plague investors' minds.

Where will growth come from?

Finding big winners or any company capable of delivering a multiple on investment is difficult because these companies are so rare. Our sense is that generating the growth required to earn such returns is going to be harder in the coming few years than it was in the past decade. With this in mind, we think owning companies exposed to secular tailwinds becomes even more important because progress should continue despite the weaker funding environment and stickier inflation.

There are major changes across multiple industries which can propel companies forward. The biopharmaceutical industry, for example, is constantly experiencing change, creating opportunities for innovative drug developers, well-established equipment providers and drug manufacturers. Currently, the focus appears to be shifting towards cell and gene-based therapies with the biologics industry forecast to grow at an 11 per cent compound annual growth rate (CAGR) through to 2028, just short of double the rate of the broader pharmaceutical industry. The portfolio is well positioned to benefit. In December we had the news that CRISPR Therapeutics, a company we invested in after its share price almost halved in 2022, became the first company to have a CRISPR (gene editing) therapy approved by the US Food & Drug Administration (FDA). The success of developing Casgevy, a sickle cell disease therapy, can create a flywheel effect, enabling CRISPR Therapeutics to apply this platform-like technology to a variety of different diseases. Meanwhile, demand for Sartorius Stedim Biotech's bioprocessing equipment should recover significantly in the coming years given how critical its bioreactors and single use consumables products are to the development of cell and biologics drugs. Finally, the newest holding in the portfolio, Lonza, is a company which operates as a one stop shop for biopharmaceutical companies offering drug development and manufacturing services. Lonza, which is the largest biologics contract development and manufacturing organisation (CDMO) with roughly 17 per cent market share, benefits from the twin tailwinds of the overall growth of the biologics drug market and the increasing tendency of biopharma companies to outsource the development and production of these biologic drugs.

Another big change is so-called 'de-globalisation'. Companies are shortening and diversifying their supply chains while also localising manufacturing bases. Increasing complexity in supply chains naturally favours large, global freight forwarders like DSV, a company held in the portfolio since 2017. DSV can leverage its know-how, technology and scale to help its customers re-design their supply chains and logistics networks to avoid the kind of disruption experienced during Covid. De-globalisation also favours companies which provide automated systems, particularly in the West where labour is less available and more expensive. The growth case for companies like AutoStore, which makes cubic systems for automated storage and retrieval in warehouses and which we bought for the portfolio in 2022, is being reinforced by such phenomena. By offering the densest solution on the market for companies with warehouses, AutoStore is able to deliver greater efficiency, with almost 100 per cent up-time, using a fraction of the space needed if the warehouse were entirely operated by humans, and at a potentially lower overall cost.

The growth of cell and gene-based drugs and the effects of de-globalisation are just two examples of secular trends which we believe will create long-term, sustainable growth opportunities to which the portfolio is exposed. Others include the deepening of semiconductor content, the consolidation of fragmented markets, such as in vertical market software and specialty chemicals distribution, and the enduring appeal of luxury brands. The potential effect of such trends is reflected in the portfolio's characteristics with consensus estimates with sales growth expected to be four times greater than the benchmark over the next three years and earnings growth expected to be more than double over the same period.

Valuation

Appetite for companies capable of delivering growth over the long-term is at a low ebb. The portfolio's forward price to earnings (P/E) multiple has fallen from 27 times at the end of 2019 to 20 times at the end of 2023, while the premium to the market has narrowed significantly. This doesn't make sense to us. The companies we invest in typically grow faster than the index and we would expect this to continue for far longer than five years. We think they are higher quality, have unique corporate cultures, have less debt, and are run by some of the best capital allocators in Europe. Things can always get cheaper but even the idea that the portfolio would trade at a discount to the index in a few years highlights just how inefficient the market is at valuing growth.

While the degree of multiple compression has been disappointing, it does provide us with the opportunity to reinvest in existing holdings and to invest in other companies which have strong long-term growth prospects at lower valuations. As investors, this is when our advantage is at its strongest because there is more potential to find companies capable of becoming big winners.

We have invested in, or reinvested in, each company discussed above on share price weakness in the past 18 months, looking beyond near-term sentiment and towards long-term growth prospects. CRISPR Therapeutics fell more than 50 per cent from its highs in 2021 before we took a position in 2022. Similarly, Lonza's share price more than halved from its 2021 highs before we took a position for the portfolio in the fourth quarter of 2023. Sartorius Stedim Biotech saw its share price fall by roughly 20 per cent in 2023, leading us to increase our position, just as we added to DSV after its share price fell by roughly 20 per cent. Meanwhile AutoStore's share price had more than halved from its 2021 initial public offering (IPO) price before we took a position for the portfolio in 2022.

All big winners will go through some kind of drawdown over our long holding periods. We have seen this with our multi-decade ownership of Atlas Copco, a stock which has been one of our biggest winners. So long as the growth runway and the fundamental attractions of a business remain intact, we must be prepared to use such moments to invest and reinvest in potentially exceptional, structurally advantaged businesses like Lonza, AutoStore and DSV.

Conclusion

Optimising style exposures for coming market environments may have become asset allocation orthodoxy but it ignores what really matters in driving long-term share price returns. If both growth and value matter, it feels like an opportune moment to invest in companies backed by long-term secular trends in the pursuit of big winners.

Over short periods there are many variables that help dictate what a company is worth. These include interest rates, risk appetite, social media, and many of the behavioural shortcomings from which us humans regularly suffer. Companies make mistakes too – operational hiccups happen. These are businesses run by real people trying to navigate complex issues and unpredictable events. Over longer periods of time, however, these variables play a far less significant part. What is more important is that a company has a large growth opportunity to attack, and the people, processes and cultures to execute on that opportunity successfully. We will make mistakes, but if we build and maintain a portfolio of growing, structurally advantaged businesses at attractive valuations, we believe that we can deliver for our shareholders.

Performance Objective

+2 to 3% p.a. gross of fees 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	11.3	7.6	3.7
1 Year	7.7	15.8	-8.1
3 Years	-8.9	8.2	-17.1
5 Years	7.4	10.7	-3.3
10 Years	7.7	8.3	-0.6
Since Inception	8.8	8.4	0.4

USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	16.3	12.4	3.9
1 Year	14.1	22.7	-8.6
3 Years	-11.0	5.7	-16.7
5 Years	7.4	10.7	-3.3
10 Years	4.9	5.5	-0.6
Since Inception	8.0	7.6	0.4

EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	11.5	7.7	3.7
1 Year	10.2	18.5	-8.3
3 Years	-7.9	9.4	-17.3
5 Years	8.2	11.5	-3.3
10 Years	7.3	7.9	-0.6
Since Inception	8.1	7.8	0.4

CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	13.4	9.6	3.8
1 Year	11.0	19.4	-8.4
3 Years	-9.9	7.0	-16.9
5 Years	6.7	9.9	-3.2
10 Years	7.2	7.8	-0.6
Since Inception	8.4	8.0	0.4

AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	10.0	6.3	3.7
1 Year	13.4	21.9	-8.5
3 Years	-7.2	10.2	-17.4
5 Years	8.1	11.4	-3.3
10 Years	7.8	8.4	-0.6
Since Inception	8.5	8.1	0.4

Annualised periods ended 31 December 2023. 3 Month & 1 Year figures are not annualised.
Inception date: 31 December 1989
Figures may not sum due to rounding.
Benchmark is MSCI Europe ex UK Index (FTSE World Europe ex UK Index prior to 31 December 2016).
Source: Revolution, MSCI, FTSE.
The Europe ex UK composite is more concentrated than the MSCI Europe ex UK 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 (%)	31.7	43.5	9.3	-35.7	7.7
Benchmark (%)	21.0	8.2	17.6	-6.9	15.8

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 (%)	37.0	48.0	8.3	-42.9	14.1
Benchmark (%)	25.9	11.6	16.5	-17.3	22.7

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 (%)	39.5	35.8	16.5	-39.1	10.2
Benchmark (%)	28.2	2.4	25.4	-11.9	18.5

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 (%)	30.1	45.4	7.4	-38.7	11.0
Benchmark (%)	19.5	9.7	15.5	-11.3	19.4

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 (%)	37.2	34.9	14.9	-38.7	13.4
Benchmark (%)	26.1	1.7	23.7	-11.3	21.9

Benchmark is MSCI Europe ex UK Index (FTSE World Europe ex UK Index prior to 31 December 2016).
Source: Revolution, MSCI, FTSE.
The Europe ex UK composite is more concentrated than the MSCI Europe ex UK Index

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 December 2023

Stock Name	Contribution (%)
Adyen	0.8
IMCD Group	0.6
Schibsted	0.6
Avanza Bank	0.6
Ryanair	0.6
Reply Spa	0.5
Atlas Copco	0.4
EQT	0.4
Hypoport	0.4
Nestle	0.4
HelloFresh	-0.7
Prosus	-0.5
DSV	-0.5
Topicus.Com	-0.4
Kering	-0.4
Siemens	-0.2
Delivery Hero	-0.2
Royal Unibrew	-0.2
Nexans	-0.1
UBS Group	-0.1

One Year to 31 December 2023

Stock Name	Contribution (%)
Spotify Technology	1.3
Ryanair	1.3
Schibsted	1.0
Kingspan Group	0.8
Nestle	0.7
Roche	0.7
Adevinta	0.6
Atlas Copco	0.6
Allegro.eu	0.6
Hemnet Group	0.5
Zalando	-1.3
Prosus	-1.3
Delivery Hero	-1.2
Mettler-Toledo	-1.0
Kering	-0.9
Novo Nordisk	-0.9
Kinnevik	-0.9
Sartorius Stedim Biotech	-0.8
Adyen	-0.6
Nexans	-0.6

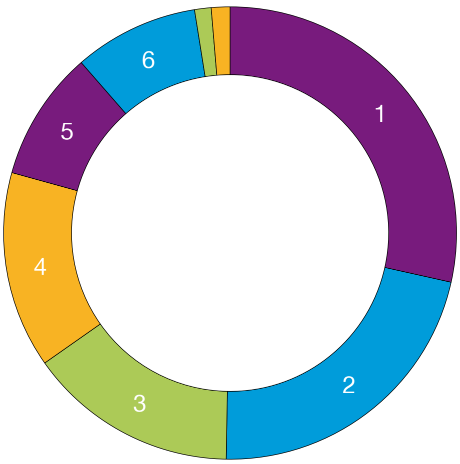
Source: Revolution, MSCI. Europe ex UK composite relative to MSCI Europe ex UK Index.
The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions 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
Ryanair	European low-cost airline	5.5
Prosus	Portfolio of online consumer companies including Tencent	5.1
Schibsted	Media and classifieds advertising platforms	4.7
Topicus.com	Acquirer of vertical market software companies	4.2
Atlas Copco	Manufacturer of industrial compressors	4.2
ASML	Semiconductor equipment manufacturer	4.1
Avanza Bank	Online investment platform	3.7
Kingspan Group	Building materials provider	3.6
IMCD	Speciality chemicals distributor	3.6
Allegro.eu	Polish e-commerce platform	3.3
Total		42.2

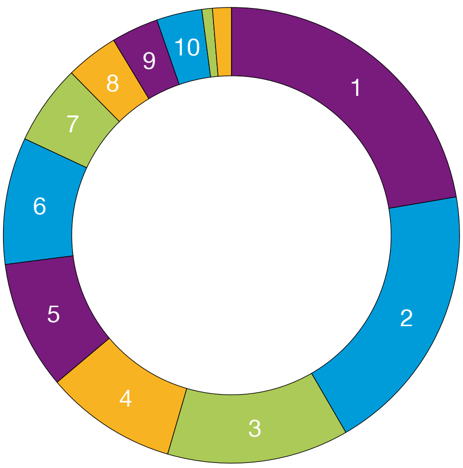
Totals may not sum due to rounding.

Sector Weights



		%
1	Industrials	28.5
2	Consumer Discretionary	21.8
3	Financials	15.0
4	Information Technology	14.0
5	Health Care	9.3
6	Communication Services	8.9
7	Consumer Staples	1.2
8	Cash	1.3

Geographical Location Weights



		%
1	Netherlands	22.3
2	Sweden	19.3
3	France	12.9
4	Switzerland	9.3
5	Ireland	9.1
6	Germany	9.0
7	Norway	5.7
8	Denmark	3.7
9	Poland	3.3
10	Italy	3.2
11	Luxembourg	0.7
12	Cash	1.3

Totals may not sum due to rounding

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	2	Companies	None	Companies	1
Resolutions	5	Resolutions	None	Resolutions	1

Long-term investing and sustainability are inextricably linked

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

Topics of discussion in engagements over the quarter included corporate culture, human rights, and decarbonisation pathways

Company Engagement

Engagement Type	Company
Environmental	CRISPR Therapeutics AG, DSV A/S, IMCD N.V., Ryanair Holdings plc, Topicus.com Inc., Wizz Air Holdings Plc
Social	DSV A/S, Ryanair Holdings plc, Wizz Air Holdings Plc
Governance	ASML Holding N.V., Adyen N.V., CRISPR Therapeutics AG, Compagnie Financière Richemont SA, IMCD N.V., Kering SA, Kinnevik AB, Schibsted ASA, Wizz Air Holdings Plc
Strategy	Ryanair Holdings plc, Schibsted ASA

Company	Engagement Report
Adyen	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. 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. 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.
DSV	Objective: DSV is a global freight forwarder that provides optimised transport and logistics services for its customers. We engaged with the company's Executive Vice President (EVP) of Sustainability and Compliance, Martin Andreasen, and EVP of Investor Relations, Flemming Ole Nielsen. The primary purpose was to understand how DSV intends to manage the risks associated with its joint venture (JV) where it will offer construction logistics for the NEOM mega-city project in Saudi Arabia. Due to the high proportion of migrant labour and the poor human rights record in the region, there is an increased risk of modern slavery associated with its involvement in the project. We also used the opportunity to cover updates related to DSV's climate ambition, CEO succession and the decarbonisation of shipping. Discussion: DSV acknowledged shortcomings in its messaging around the NEOM JV announcement. On reflection, they would have disclosed more about the relevant risk management mechanisms already in place, and those which will be applied as part of the JV. These include internal and external auditing procedures, a deeply embedded risk-reporting culture, and reporting lines that lead up to the board. From a transparency perspective, it will comply with disclosure requirements on human rights due diligence as part of the EU's forthcoming Corporate Sustainability Reporting Directive (CSRD). On the topic of climate, a near-term decarbonisation roadmap will be included in DSV's forthcoming ESG report, which is due for publication in early 2024. An internal carbon price is now applied to DSV's subsidiaries, based on their level of operational emissions, with proceeds used to fund low-carbon innovations. DSV believes that the inclusion of the shipping industry in the EU's Emissions Trading Scheme, thereby internalising the cost of carbon for the sector, will be the main catalyst in the shift to low-carbon fuels. Outcome: We continue to think that DSV will face a high hurdle in demonstrating full commitment to upholding international human and labour rights because of its involvement in the NEOM JV. We intend to write a letter to the board outlining our expectations regarding the levels of transparency on related risk monitoring. We also agreed to have a follow-up discussion on DSV's decarbonisation pathway following the publication of its ESG report in early 2024.

Company	Engagement Report
Wizz Air	Objective: We engaged with Wizz Air on three material ESG issues: its decarbonisation pathway, safety and employee oversight, and customer service policy reform. We discussed these areas with the Senior Independent Director Barry Eccleston, who is a veteran of the aeronautical industry, as well as executives from across the business. Discussion: To reach its emissions intensity reduction targets, Wizz is focusing much of its efforts on fleet renewal. It already has one of the youngest fleets in the industry, which means it is one of the most efficient operators against the industry-standard metric of carbon dioxide per revenue passenger kilometre. In order to decouple absolute emissions growth from industry growth, however, a paradigm shift in plane design is needed, and the incumbent plane manufacturers do not yet have a solution. The reason why Wizz has not made its own explicit Sustainable Aviation Fuel (SAF) commitment, unlike Ryanair, is because of the lack of visibility in supply. A lot of work is going on in silos, and more collaboration is needed across the value chain to scale SAF. To secure future supply, Wizz has made direct equity investments in SAF manufacturing plants, largely in preparation for EU blending mandates. We also learned that Wizz had established a safety, security & an operational compliance board committee due to external factors and that this had not been in response to specific internal issues. It is investing heavily in its customer service systems to address earlier shortcomings, and the measures it is taking seem comprehensive. Outcome: This discussion reinforced the difficulties that the aviation industry faces to decarbonise. It also highlighted the dependencies of the airlines on the innovation pathways of plane manufacturers and on the scaling of the supply of SAF. We were reassured by the level of board oversight on safety and the progress Wizz was able to demonstrate in its claims management processes. We will continue to monitor and engage on Wizz's progress in these material areas.

Votes Cast in Favour

Companies	Voting Rationale
AutoStore Hdgs, IMCD Group NV	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

We did not vote against any resolutions during the period.

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
AutoStore Hdgs	EGM 27/10/23	5	We abstained on the non-executive remuneration due to concerns that the two-year vesting period attached to the equity grants may affect the independent judgement of non-executive directors.

Votes Withheld

We did not withhold on any resolutions during the period.

New Purchases

Stock Name	Transaction Rationale
Lonza	Lonza is a Swiss contract development manufacturing organisation (CDMO). With its services it is a key enabler in allowing biotech and pharma companies to outsource the manufacture and development of drugs for trial and (after approval) for sale. There is a favourable industry tailwind with more outsourcing driven by manufacturing complexity, cost savings and new pharma entrants. That can be coupled with increased drug development - ongoing healthcare needs, a growing patient population and improved drug discovery and development tech. The business is investing heavily for the future and we believe it will be an industry leader. Given these attractions we decided to take a holding.

Complete Sales

Stock Name	Transaction Rationale
Adevinta	We have sold the holding in online classifieds marketplaces business Adevinta. The company is under offer from private equity investors and we decided to exit in order to invest in other ideas.
Cellectis	Cellectis, a French biotech company, has been a poor investment. We believed it had the potential to commercialise a range of CAR-T therapies which modify cells to fight off and kill cancer cells. This has not come to pass and our patience has worn out. We decided to sell the position and invest the proceeds in more compelling opportunities.
Hexpol	Hexpol is a Swedish rubber compounding business providing semi-finished rubber that is used by its customers to make a variety of products, including door seals, O-rings and gaskets. While we continue to admire the company, we believe it will struggle to generate the growth and margins required to double in value over the coming five years. With this in mind, we decided to sell the position in Hexpol in order to invest in more compelling opportunities.

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