

# BAILLIE GIFFORD

## *Baillie Gifford Global Discovery Fund*

30 June 2023

### About Baillie Gifford

<b>Philosophy</b>	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
<b>Partnership</b>	100% owned by 57 partners with average 20 years' service Ownership aligns our interests with those of our clients Enables us to take a thoughtful, long-term view in all that we do Stability, quality and consistency

### Investment Proposition

The Fund invests in companies that offer significant growth prospects with an emphasis on companies operating in industries with potential for structural change and innovation. The Fund's holdings will, by their nature, offer a wide range of potential outcomes. We aim to embrace this uncertainty and believe it is important that the portfolio is adequately diversified by name and thematic influence; and sufficiently broad so as to be open to the inclusion of new ideas. The Fund has a bias towards smaller companies.

### Fund Facts

Fund Launch Date	01 May 2011
Fund Size	£784.4m
IA Sector	Global
Active Share	99%*
Current Annual Turnover	8%
Current number of stocks	93
Stocks (guideline range)	80-125

\*Relative to S&P Global Small Cap Index. Source: Baillie Gifford & Co, S&P.

### Deputy and Fund Managers

Name	Years' Experience
Douglas Brodie*	22
Luke Ward	11
Svetlana Viteva	11

\*Partner

## Fund Objective

To outperform (after deduction of costs) the S&P Global Small Cap Index, as stated in sterling, by at least 2% per annum over rolling five-year periods.

The manager believes this is an appropriate target given the investment policy of the Fund and the approach taken by the manager when investing. In addition, the manager believes an appropriate performance comparison for this Fund is the Investment Association Global Sector.

There is no guarantee that this objective will be achieved over any time period and actual investment returns may differ from this objective, particularly over shorter time periods.

## Periodic Performance

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)
Class B-Acc (%)	-3.1	-8.3	-15.2	-2.0
Index (%)*	0.5	8.2	9.5	5.4
Target (%)**	1.0	10.4	11.6	7.4
Sector Average (%)***	2.4	10.8	8.4	7.6

Performance source: FE, Revolution, S&P, total return in sterling.

\*S&P Global Small Cap Index.

\*\*Target refers to Target Benchmark: S&P Global Small Cap Index (in sterling) plus at least 2% per annum over rolling five-year periods.

\*\*\*IA Global Sector.

## Discrete Performance

	30/06/18- 30/06/19	30/06/19- 30/06/20	30/06/20- 30/06/21	30/06/21- 30/06/22	30/06/22- 30/06/23
Class B-Acc (%)	8.8	36.4	33.1	-50.0	-8.3
Index (%)*	1.8	-2.8	36.8	-11.3	8.2
Target (%)**	4.0	-0.9	38.7	-9.4	10.4
Sector Average (%)***	7.5	5.4	25.9	-8.8	10.8

Performance source: FE, Revolution, S&P, total return in sterling.

\*S&P Global Small Cap Index.

\*\*Target refers to Target Benchmark: S&P Global Small Cap Index (in sterling) plus at least 2% per annum over rolling five-year periods.

\*\*\*IA Global Sector.

## Market environment

Over the quarter, markets have been more stable. Progress in the US's fight against inflation and enthusiasm about the possibilities related to generative artificial intelligence have driven indices. This rally, however, has been chiefly driven by large-cap growth, notably a handful of mega-cap technology companies. Thus, the concentration of indices like the S&P500 is near historic highs.

Small-cap indices remain volatile. Concerns remain about the possible impact of the currently high-interest rates and tight credit conditions on smaller businesses. We continue to observe that the earlier and less established the company, the less patience the market is willing to extend. For many of our holdings, the current near-term stock market debate feels relatively removed from the long-term hypothesis. This is driving the relative valuation gap between small and large-cap indices to be near its broadest of any point over the last five years.

## Performance

Over the quarter, Schrodinger and Exact Sciences have been among most significant positive contributors to performance.

Schrodinger is a healthcare-based software company, its main product models molecular interactions and can be used as an efficiency tool in drug discovery. Shares have been strong over the quarter, partly due to good operational progress but also as more investors awaken to the possibilities of in-silico drug discovery. The business is growing nicely, with revenues increasing around 30% year-over-year, partly through software licensing and royalty/ milestone payments from drug discovery. The catalysts for growth continue to look attractive – Schrodinger has a pipeline of large pharma clients with whom they can grow and further de-risk the software. This increases the likelihood that Schrodinger can successfully design therapeutic candidates, opening additional attractive revenue opportunities. Exact Sciences, the diagnostics company which develops screening tests for cancers, best known for its flagship product Cologuard which tests for colorectal cancer (the second deadliest cancer in the US), was also among the top contributors towards relative performance. Shares have responded well to good operational progress, with revenue growing around 33% year-over-year. At the same time, the company is expected to turn free cash flow positive this year - a year ahead of the previous target.

Conversely, holdings in MarketAxess and Novocure have been among the assets which have had the most significant negative impact on performance. Shares in MarketAxess, the leading electronic trading platform for fixed-income securities, have been weak over the quarter. Platform trading volume growth has slowed for successive months, partly due to stabilisation in global credit markets. We recently met the company's

chairman, CEO and CFO in New York. Our key takeaway from that meeting was the scope of the remaining opportunity regarding the proportion of transactions that go through non-electronic means and the remaining optionality in diversifying asset classes (inc. treasuries). Novocure, the Israeli manufacturer of wearable treatment devices for solid-state cancers, depreciated sharply on the release of data for the device's use in non-small cell lung cancer. We view the sell-off as misjudged, with investors putting too much weight on an inconclusive secondary endpoint. With the primary endpoint being met, the company can proceed with FDA approval for the device. Events over the quarter doesn't shake our conviction in the position.

## Notable transactions

Over the quarter, we sold out of the position in CEVA, Q2 Holdings, Splunk, Temenos and Wayfair. We recycled the capital into meaningful additions to existing holdings in Novocure, Oxford Nanopore, QuantumScape, and Schrodinger.

## Stock Level Attribution

### Top and Bottom Ten Contributors to Relative Performance

#### Quarter to 30 June 2023

Stock Name	Contribution (%)
Schrödinger	1.6
Exact Sciences	1.4
JFrog	0.4
Quanterix Corporation	0.4
Zillow	0.4
LiveRamp	0.3
Ocado	0.2
Digimarc	0.2
Progyny	0.2
Xero (Au)	0.2
MarketAxess	-1.6
Novocure	-1.2
STAAR Surgical	-1.2
Chegg	-0.9
Anylam Pharmaceuticals	-0.7
Hua Medicine	-0.6
Axon Enterprise	-0.6
EverQuote	-0.5
Sprout Social	-0.5
Upwork	-0.4

#### One Year to 30 June 2023

Stock Name	Contribution (%)
Exact Sciences	2.8
Axon Enterprise	1.9
Schrödinger	1.5
Zillow	1.3
Anylam Pharmaceuticals	1.2
MercadoLibre	0.5
Shockwave Medical	0.5
IPG Photonics	0.3
Digimarc	0.3
TransMedics	0.3
STAAR Surgical	-2.3
Upwork	-2.1
Novocure	-2.0
Codexis	-1.5
Chegg	-1.3
Ocado	-1.1
Kingdee International Software	-1.1
Hua Medicine	-0.8
Pacira BioSciences	-0.8
DLocal	-0.8

Source: Revolution, S&P. Baillie Gifford Global Discovery Fund relative to S&P Global Small Cap Index.

Some stocks may only have been held for part of the period.

Attribution is shown relative to the benchmark therefore not all stocks shown are held in the portfolio. See the List of Holdings section of this report for the stocks held.

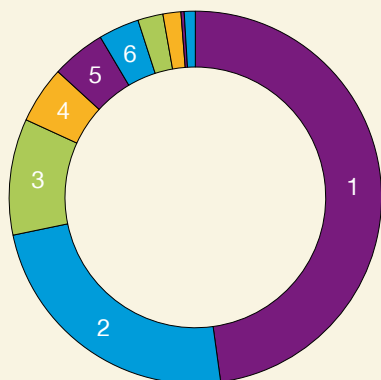
Transactions from 01 April 2023 to 30 June 2023.

There were no new purchases during the period.

### Complete Sales

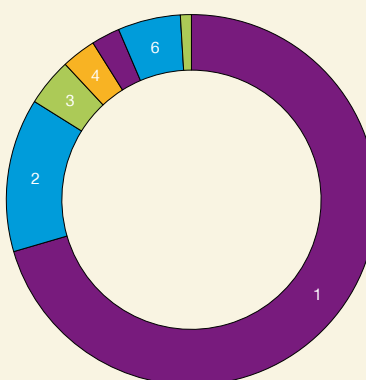
Stock Name	Transaction Rationale
CEVA Inc	CEVA develops and licenses digital signal processing IP focusing on wireless connectivity and smart sensing technologies. With a difficult end-market backdrop in smartphone and consumer electronics we sense the licensing environment for Ceva is becoming tougher. That, combined with a sense that the business lacked ambition and strategic direction, gave us cause to move on from the small holding.
Q2 Holdings Inc	We sold the holding in Q2, the provider of cloud-based virtual banking solutions for regional and community financial institutions. Our conviction in the long-term investment case has decreased despite fairly steady operational progress. Scaling the customer base has proven more challenging than we anticipated, given the slow-to-modernise and risk-averse nature of the vertical. In addition, we have become increasingly mindful of the pricing environment in which the business operates following the collapse of several US banks earlier in the year. We've used the sale proceeds to add to higher conviction ideas.
Splunk Inc	We have become concerned that Splunk's strong position in monitoring and analysing machine-generated data is being eroded, given the changing dynamics of IT infrastructure and data storage. These changes are reflected in mounting competition, often with a more elegant and contemporary focus. Splunk's moves into adjacent areas have also been slower than expected. Given these challenges, we have decided to sell the holding.
Temenos	We have sold the holding in financial services software provider Temenos. We continue to believe in the long-term growth opportunity that lies in updating the ageing software infrastructure upon which the global financial services industry is built. Unfortunately, while Temenos remains a leader in its field, the competitive pressure from younger and more disruptive market entrants continues to increase, and the shift in its sales model from up-front licenses to subscription and "software as a service" could prove operationally and financially disruptive. Combined with diminished confidence in the executive team after a series of disappointing operational updates and turnover in the senior sales team, we no longer see the risk reward as attractively balanced.
Wayfair Inc	Wayfair is an online marketplace for furniture. While they took market share during the pandemic, we are not convinced that this has converted into the customer loyalty they need to develop a thriving business model or generate consistent profitability. Furthermore, the company has a large amount of convertible debt that may dilute today's shareholders considerably. We, therefore, used this as a source of funds for new ideas.

**Sector Exposure**



		%
1	Health Care	47.8
2	Information Technology	23.9
3	Industrials	10.1
4	Real Estate	5.0
5	Financials	4.7
6	Consumer Staples	3.5
7	Consumer Discretionary	2.2
8	Communication Services	1.6
9	Materials	0.3
10	Cash	1.0

**Geographic Exposure**



		%
1	United States	70.5
2	UK	13.4
3	China	4.2
4	Israel	3.0
5	Japan	2.5
6	Others	5.5
7	Cash	1.0

As well as cash in the bank, the cash balance includes unsettled cash flows arising from both shareholder flows and outstanding trades. Therefore, a negative balance may arise from timing differences between shareholder flows and security trading, and does not necessarily represent a bank overdraft.

**Top Ten Holdings**

Stock Name	Description of Business	% of Portfolio
Alnylam Pharmaceuticals	Drug developer focussed on harnessing gene silencing technology	8.0
Zillow	US online real estate services	5.0
STAAR Surgical	Ophthalmic implants for vision correction	4.8
Exact Sciences	Non-invasive molecular tests for early cancer detection	4.8
Schrödinger	Biopharmaceutical & technology company	3.6
Ocado	Online grocery retailer and technology provider	3.5
MarketAxess	Electronic bond trading platform	3.3
Appian	Enterprise software developer	3.0
Axon Enterprise	Law enforcement equipment and software provider	2.7
Oxford Nanopore Tech	Biotech company	2.6
<b>Total</b>		<b>41.3</b>

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	66	Companies	23	Companies	9
Resolutions	675	Resolutions	26	Resolutions	22

Our 2023 ESG Principles and Guidelines are available on the website. The document sets out Baillie Gifford's Stewardship Principles and their integration into research, proxy voting, and ownership activities.

The second quarter of the year saw our Statement of Climate-related Intent and Ambition and TCFD-aligned Climate Report published. These are available on the website.

Sustainability is inextricably linked to Discovery's philosophy of investing in problem-solving businesses.

Company Engagement

Engagement Type	Company
Social	Chegg, Inc., M3, Inc.
Governance	Collectis S.A., M3, Inc., NuCana plc, Zuora, Inc.

For further details on company engagement please contact us. You can also find further information on how we integrate environmental, social and governance (ESG) matters into our investment approach, [here](#).

Asset Name	Fund %	Asset Name	Fund %
Alnylam Pharmaceuticals	8.0	Everbridge	0.5
Zillow	5.0	Hua Medicine	0.5
STAAR Surgical	4.8	Veeco Instruments	0.5
Exact Sciences	4.8	Sutro Biopharma	0.5
Schrödinger	3.6	Renishaw	0.5
Ocado	3.5	EverQuote	0.5
MarketAxess	3.3	Tabula Rasa HealthCare	0.5
Appian	3.0	American Superconductor Corp	0.5
Axon Enterprise	2.7	Nanobiotix	0.4
Oxford Nanopore Tech	2.6	CyberArk	0.4
Novocure	2.4	ITM Power	0.4
Zuora	2.2	Rightmove	0.4
AeroVironment	2.2	HUYA	0.4
Ambarella	2.2	LendingTree	0.4
Upwork	1.8	Sensirion	0.4
PureTech Health	1.8	MercadoLibre	0.4
LiveRamp	1.8	Stratasys	0.4
JFrog	1.7	Beam Therapeutics	0.4
Genmab	1.7	M3	0.3
IPG Photonics	1.6	Trupanion	0.3
Teladoc	1.6	MonotaRO	0.3
Sprout Social	1.5	Infomart	0.3
Progyny	1.5	Victrex	0.3
Zai Lab	1.4	Cosmo Pharmaceuticals	0.3
Pacira BioSciences	1.4	New Horizon Health	0.3
Kingdee International Software	1.4	Chinook Therapeutics	0.3
Chegg	1.1	Tandem Diabetes Care	0.3
HashiCorp	1.0	Cardlytics	0.2
BlackLine	1.0	C4X Discovery	0.2
TransMedics Group	0.9	BASE	0.2
Fiverr International	0.9	NuCana	0.2
Quanterix Corporation	0.9	ilika	0.2
Doximity	0.9	Agora	0.2
Ceres Power	0.8	Akili Interactive Labs	0.1
Digimarc	0.8	LivePerson	0.1
PeptiDream	0.8	iRobot	0.1
Genus	0.7	Cellectis	0.1
Xero	0.7	Catapult Group	0.1
DLocal	0.7	Molecular Partners	0.1
ShockWave Medical	0.7	Adicet Bio	0.0
AbCellera Biologics	0.6	Berkeley Lights	0.0
QuantumScape Corporation	0.6	Angelalign Technology	0.0
Twist Bioscience	0.6	China Lumena New Materials	0.0
Freee	0.6	4D pharma	0.0
IP Group	0.6	Cash	1.0
Avacta	0.6	<b>Total</b>	<b>100.0</b>
Codexis	0.6	Please note the fund information contained within this document is confidential, proprietary information and should be maintained as such and not disseminated. The content is intended for information purposes only and should not be disclosed to other third parties or used for the purposes of market timing or seeking to gain an unfair advantage.	
Adaptimmune Therapeutics	0.6		
Expensify	0.6		



Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Acc	03 May 2011	GB0006059330	0605933	0.75	0.78
Class B-Inc	03 May 2011	GB0006059223	0605922	0.75	0.78

The table displays the primary shares classes. Other share classes may be available for those investors who have a separate arrangement. Charges will reduce the value of your investment. Please refer to the Prospectus and Key Investor Information Document for further details.

S&P The S&P 500, S&P Global SmallCap and Dow Jones Islamic Market World (index) are products of S&P Dow Jones Indices LLC or its affiliates ("SPDJI"), and has been licensed for use by Baillie Gifford & Co. S&P®, S&P 500®, US 500, The 500, iBoxx®, iTraxx® and CDX® are trademarks of S&P Global, Inc. or its affiliates ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by Baillie Gifford & Co. Baillie Gifford & Co Product(s) are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P 500, S&P Global Small Cap and Dow Jones Islamic Market World Index.

This document contains information on investments which does not constitute independent investment research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned. Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

This document is issued by Baillie Gifford & Co Limited, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, a company which is authorised and regulated by the Financial Conduct Authority, Financial Services Register No. 119179, and is a member of The Investment Association. Baillie Gifford & Co Limited is wholly owned by Baillie Gifford & Co, which is authorised and regulated by the Financial Conduct Authority. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK clients. Both are authorised and regulated by the Financial Conduct Authority.

#### **Additional Geographical Location Information**

**Israel:** This Report, as well as investment in the Fund described herein, is directed at and intended for Investors that fall within at least one category in each of: (1) the First Schedule of the Israeli Securities Law, 1968 (“Sophisticated Investors”); and (2) the First Schedule of the Investment Advice Law (“Qualified Clients”).

The Fund’s share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the Fund is priced.

As with any investment, the clients’ capital is at risk. Past performance is not a guide to future returns.

Throughout the report all figures are rounded, so any totals may not sum. Not all stocks mentioned may be held by the portfolio.

All information as at 30 June 2023 and source is Baillie Gifford & Co unless otherwise stated.

**Baillie Gifford & Co Limited**  
**Calton Square, 1 Greenside Row, Edinburgh EH1 3AN**  
**Telephone +44 (0)131 275 2000 [bailliegifford.com](http://bailliegifford.com)**