

Baillie Gifford Health Innovation Fund

31 March 2024

About Baillie Gifford

Philosophy	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
Partnership	100% owned by 57 partners with average 21 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 aims to produce capital growth over the long term. The investment policy is to invest mainly in global equities selected from companies involved in the healthcare industry and which are innovative in their focus. The Fund will not be restricted to equity securities in the healthcare sector as defined by any particular index. Investment will be concentrated by the number of stocks held but diversified across a range of healthcare themes.

Fund Facts

Fund Launch Date	15 December 2020
Fund Size	£44.3m
IA Sector	Healthcare
Active Share	100%*
Current Annual Turnover	13%
Current number of stocks	37
Stocks (guideline range)	25-50

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

Health Innovation Team

Name	Years' Experience
Julia Angeles*	16
Marina Record	16
Rose Nguyen	11

*Partner

Fund Objective

To outperform (after deduction of costs) the MSCI ACWI Index, as stated in sterling, by at least 2.5% 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 Healthcare 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.)	Since Inception (p.a.) [†]
Class B-Acc (%)	1.5	-11.0	-13.3	-14.1
Index (%) [*]	9.3	21.2	10.7	10.9
Target (%) ^{**}	10.0	24.2	13.5	13.7
Sector Average (%) ^{***}	7.4	8.8	4.9	4.2

Source: FE, Revolution, MSCI. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

Baillie Gifford operates a single swinging price for the Fund and, therefore, may apply a dilution adjustment to the price to protect long-term investors from the costs associated with buying and selling underlying investments that result from other investors joining or leaving the Fund. This adjustment will affect relative performance, either positively or negatively.

[†]15/12/2020

^{*}MSCI ACWI Index.

^{**}MSCI ACWI Index (in sterling) plus at least 2.5% per annum over rolling five-year periods.

^{***}IA Healthcare Sector.

Discrete Performance

	31/03/19- 31/03/20	31/03/20- 31/03/21	31/03/21- 31/03/22	31/03/22- 31/03/23	31/03/23- 31/03/24
Class B-Acc (%)	n/a	n/a	-18.3	-10.3	-11.0
Index (%) [*]	n/a	n/a	12.9	-0.9	21.2
Target (%) ^{**}	n/a	n/a	15.7	1.6	24.2
Sector Average (%) ^{***}	n/a	n/a	8.8	-2.6	8.8

Source: FE, Revolution, MSCI. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

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^{***}IA Healthcare Sector.

Market environment

In the first quarter of 2024, the Health Innovation portfolio rose in absolute terms as optimism improved across the healthcare sector. After a prolonged period of adjustment following the pandemic, strong funding activity and positive commentary from company management teams suggest the sector is through the worst, although performance continues to be dominated by the obesity drug developers, Eli Lilly and Novo Nordisk. Companies in the portfolio continue to make progress which should be increasingly rewarded as confidence in the sector pick up.

The broader global equity market had its strongest first quarter in five years as AI enthusiasm and the resilience of the global economy drove stock prices and valuations higher, particularly in the US.

Performance

The portfolio's largest contributors to performance included **Shockwave**, **Edwards Lifesciences**, and **ALK-Abello**. **Shockwave**, the developer of devices which remove calcified plaques from arteries, saw its stock price hit a new high as it announced strong quarterly results and news broke that it is in talks to be acquired by the pharmaceutical giant Johnson & Johnson. Its fourth quarter revenues beat sell-side estimates, growing 40% year-on-year, with sales outside of the US increasing rapidly, despite weakness in China. It has product launches to come this year to expand its market further, such as its C2+ device which can remove more challenging lesions due to the stronger pulses it emits.

Edwards Lifesciences also had a strong quarter. The company has developed a range of medical implants for the heart which can be delivered in a less intrusive manner than incumbent treatments, improving patient recovery times and outcomes. In February, it announced the early approval of its Evoque device, which can replace the heart's tricuspid valve. The device will launch this year in the US and Europe to further strengthen a fast-growing area of its business, alongside its mitral value treatments. The bulk of its revenues today are from its transcatheter aortic valve replacements (TAVR), which continue to grow at over double-digit rates year-on-year, despite their mature market penetration.

Allergy immunotherapy treatment company **ALK-Abello's** stock price continued to perform well following consecutive quarters of strong tablet

sales in Europe. Alongside strong demand, the company has importantly also delivered operating margin growth that is expected to continue as its clinical trial and research costs stabilise. Its tablet portfolio includes the majority of common respiratory allergies such as dust mite, grass and tree pollen. The key opportunity is expanding their use to an underpenetrated patient population in the coming years. ALK-Abello believes that under 10% of allergy sufferers are aware of the treatment options available today.

The key detractors to performance last quarter included **10X Genomics**, **Alnylam Pharmaceuticals** and **WuXi Biologics**. In January, **10X Genomics** announced disappointing results which caused the stock price to fall. Demand has been weaker for the Chromium single-cell sequencing devices and related consumables it sells, amid widespread industry weakness as its customer base tightens spending. These devices show how different cells in the body behave. However, its spatial biology Xenium device has had a very successful launch, with over 250 instruments now shipped. The company is looking to refocus its efforts on growing the single-cell business after some commercial missteps in this area over the last year. This should be aided by the release of an improved GEM-X chemistry which cuts costs for its customers.

Despite its robust drug pipeline and continued financial progress, **Alnylam's** stock price fell last quarter due to changes they announced to their pivotal HELIOS-B trial. The trial is assessing the use of its drug, Vutrisiran, in treating ATTR cardiomyopathy, a potentially fatal genetic heart disorder. Vutrisiran is approved for ATTR polyneuropathy, a related condition, but success in HELIOS-B could multiply its addressable patient population tenfold. Alnylam lengthened the trial by three months and split the patient population to assess its use as a lone therapy and alongside the existing standard of care, tafamidis. The market reacted badly to this news, as changes at this late stage are unusual. However, the management team believe these changes will better highlight the superior efficacy of its drug. We await the results announcement in June but have conviction in the company's gene silencing technology and broader pipeline.

WuXi Biologics, the Chinese contract research and development organisation, saw its stock price fall further this quarter after the announcement of a bipartisan bill in the US to

limit US taxpayer money benefitting certain Chinese companies. WuXi Biologics was not named in the bill, but its CEO Chris Chen and its sister company WuXi Apptec were. This could have significant implications for the company's partnerships with US companies. However, historically, bills like this have had a low chance of being signed into law and we believe that the bear case scenario is now reflected in WuXi's stock price. The bill's potential impact will take time to become evident and the company continues to execute and take share impressively. We will continue to monitor the situation closely.

Stewardship

After the dismissal of the CEO and Chair at Exscientia due to misconduct, our team engaged with the company to find its plan to strengthen its governance approach and ensure we do not see a repeat of the same mistakes. We encouraged the company to implement a more systematic and focused strategy and shared best practice on board composition and approach from our experience across the portfolio. We are encouraged by our conversations with the company.

Notable transactions

We made four new purchases in the quarter, **Inspire Medical** and **Insulet** which develop devices for sleep apnoea and diabetes delivery respectively, the oncology pioneer **BioNTech**, and **Twist Bioscience**, the manufacturer of synthetic DNA. All four holdings were bought at stark discounts to recent valuation highs.

We sold **Masimo**, **Teladoc** and **Novocure** having lost faith that all three merit a place in a portfolio of the most innovative companies in healthcare.

Market Outlook

Innovation across healthcare continues to advance strongly, despite the difficult market environment. Whether it be the increase in drug developer R&D budgets, new drugs approved, or clinical trial starts, these metrics demonstrate the health of the industry and provide a strong backdrop for its long-term prospects. Advancing technologies continue to bring a more data-driven era of personalised medicine closer. In the short term, industry revenues and profits are finally picking back up, improving market confidence, and resetting growth expectations higher.

We believe recent market uncertainty continues to mask the true potential of the companies in the portfolio. The fundamentals, in the form of revenue growth, earnings growth and investment

in R&D, remain strong. As the companies' drug pipelines continue to advance, and their devices and services evidence a differentiated value proposition to patients they should be well-placed to deliver compelling long-term growth.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 March 2024

Stock Name	Contribution (%)
ShockWave Medical	2.9
Apple	0.8
Edwards Lifesciences	0.7
Tesla Inc	0.4
Alk-Abello	0.4
Veeva Systems Inc Class A	0.3
Ascendis Pharma	0.3
Dexcom	0.2
Sana Biotechnology	0.2
Staar Surgical	0.2
10X Genomics	-1.8
Alnylam Pharmaceuticals	-1.7
Wuxi Biologics	-1.6
NVIDIA	-1.2
Ionis Pharmaceuticals	-0.8
Genmab	-0.8
Exact Sciences	-0.6
M3	-0.6
Teladoc	-0.5
Zai Lab HK Line	-0.4

One Year to 31 March 2024

Stock Name	Contribution (%)
ShockWave Medical	1.5
Apple	0.7
Ascendis Pharma	0.5
Tesla Inc	0.3
Recursion Pharmaceuticals	0.3
Sana Biotechnology	0.2
Tencent	0.2
Pfizer	0.2
Nestle	0.1
Dexcom	0.1
Wuxi Biologics	-3.6
Moderna Inc	-3.0
Genmab	-2.9
Illumina	-2.7
Alnylam Pharmaceuticals	-2.7
M3	-2.3
10X Genomics	-2.2
NVIDIA	-1.9
Novocure	-1.7
Masimo Corp	-1.4

Source: Revolution, MSCI. Baillie Gifford Health Innovation Fund relative to MSCI ACWI Index.

Some stocks may only have been held for part of the 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. See the List of Holdings section of this report for the stocks held.

Transactions from 01 January 2024 to 31 March 2024.

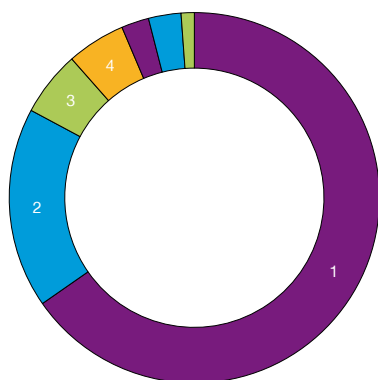
New Purchases

Stock Name	Transaction Rationale
BioNTech ADR	We decided to take a position in BioNTech, a leading oncology-focused biotechnology company. We believe the combination of deep cancer expertise from the founders' decades of experience, its strong balance sheet of over \$16bn in cash, and its access to new technologies, through internal development and partnerships, materially increases the company's chance of success. The market's focus on its declining COVID-19 vaccine revenues has left its valuation depressed, undervaluing the breadth and depth of its drug pipeline. We took the opportunity to add it to the portfolio.
Inspire Medical Systems	Inspire offers a revolutionary way of addressing obstructive sleep apnoea (OSA). Its implant stimulates a nerve to push the tongue forward and clear the throat. It is used as an alternative to pressurised masks worn while sleeping, which can have low compliance rates. With only 50k devices implanted today and an estimated 6m severe OSA patients alone in the US, there is potential to grow the number of procedures at over 20% per year for the next 10 years. Inspire has made clear progress in unlocking this market by evidencing the implant's effectiveness, making the procedure easier, improving awareness and establishing reimbursement, and it is now working to unlock surgeon capacity to boost procedure numbers further. Its stock price has halved since June due to the perceived impact of the obesity drugs despite these having no effect in treating OSA due to tongue collapse, which Inspire's devices treat. This has provided an attractive entry point to take a position in the company.
Insulet	We took a new position in Insulet which has developed the only fully disposable and automated insulin delivery pump on the market. Its easy-to-use, compact tubeless pump connects to a continuous glucose monitoring device to administer insulin in a more efficient way than alternatives. This has led it to take share rapidly against competitors. We believe that Insulet can expand its share in type 1 diabetes patients, but its largest opportunity will be its increased adoption by the 2.8m insulin-intensive type 2 diabetes sufferers in the US where pumps are less than 5% penetrated. Our base case has the company growing its revenues at over 20% per year over the next five years, as well as expanding margins as it scales. Its stock price remains depressed due to fears that obesity drugs will limit its addressable market. This presented an attractive valuation opportunity to take an initial holding.
Twist Bioscience Corp	Twist Bioscience manufactures DNA which is used in a number of applications such as in drug development, synthetic biology and clinical diagnostics. It makes synthetic DNA at a lower cost, at a higher throughput and with fewer errors than competitors. Its engineering-led approach can produce replicable success across various markets. Firstly, Twist has the potential to take share in the synthetic biology market through customer acquisition and new products and by the accelerated adoption of its sequencing products in the rapidly expanding diagnostics market. This can drive Twist's revenue growth higher, which combined with its recent capacity expansion, will lead to improved profitability over the next five years. Beyond this, the company also has compelling outlier potential in nascent markets such as in energy storage or its optimised antibodies for drug development.

Complete Sales

Stock Name	Transaction Rationale
Masimo Corp	We sold the holding in Masimo, a developer of non-invasive patient monitoring devices. This was after already reducing the holding earlier in the month to fund a new purchase in Inspire Medical. Masimo's core business of monitoring infrastructure for hospitals is high quality, but its sales had slowed due to budget tightening across its customer base. More concerning was the severe hit in demand for its premium audio business which it acquired in 2022. We have monitored the progress of this acquisition since its completion and have concluded that it has worsened the quality of the business overall. We have therefore reallocated the proceeds of the sale to companies where we have more conviction.
Novocure Ltd	We decided to sell the position in Novocure. The company's Tumour Treating Field (TTF) devices emit electric fields which can stop and reverse the progression of cancer. After disappointing results in phase three trials in lung and ovarian cancer last year, we have less conviction that its TTF technology can become a backbone of cancer treatments in the future as the oncology field continues to change rapidly. With the next key trial results not expected for some time, we decided to reallocate the proceeds to a higher conviction new idea.
Teladoc	We sold the holding in Teladoc, the virtual healthcare company, due to its worsening growth prospects and a lack of faith in its management team. The pandemic propelled Teladoc to be the dominant telemedicine provider in the US and entrenched relationships with health insurers and employers. However, the company has not been able to leverage its platform across primary and chronic care to demonstrate value in the way we would have hoped. The cross-selling of its services has disappointed, and alongside slowing growth for its BetterHelp mental health app, undermined our confidence that the management team have the skills to navigate the complex needs of its customer base in the face of increasing competition.

Geographic Exposure



		%
1	United States	65.3
2	Denmark	17.5
3	Netherlands	5.7
4	Germany	5.1
5	Japan	2.4
6	Others	2.8
7	Cash	1.1

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
ShockWave Medical	Medical devices manufacturer	8.0
Moderna	Biotechnology developing mRNA-based therapeutics	6.9
Dexcom	Continuous glucose monitoring technology for diabetes management	5.8
argenx	Antibody based drug development	5.7
Genmab	Antibody based drug development	5.6
Edwards Lifesciences	Services to treat late-stage cardiovascular disease	5.3
Sartorius Group	Biopharmaceutical and laboratory equipment supplier	4.6
Ambu	Danish developer, producer and marketer of life saving equipment	4.5
Exact Sciences	Non-invasive molecular tests for early cancer detection	4.4
ALK-Abello	Health care	4.4
Total		55.1

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	3	Companies	1	Companies	None
Resolutions	35	Resolutions	1	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	Twist Bioscience Corporation
Governance	ALK-Abello A/S, Exscientia, Genmab A/S, Sartorius Aktiengesellschaft, WuXi Biologics (Cayman) 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 %
ShockWave Medical	8.0
Moderna	6.9
Dexcom	5.8
argenx	5.7
Genmab	5.6
Edwards Lifesciences	5.3
Sartorius Group	4.6
Ambu	4.5
Exact Sciences	4.4
ALK-Abello	4.4
Alnylam Pharmaceuticals	4.1
Illumina	3.4
Veeva Systems	3.3
10x Genomics	3.3
Ionis Pharmaceuticals	3.1
Ascendis Pharma	3.0
Doximity	2.9
ResMed	2.9
M3	2.4
Recursion Pharmaceuticals	2.0
STAAR Surgical	1.5
Insulet Corporation	1.4
Denali Therapeutics	1.4
WuXi Biologics	1.4
Inspire Medical Systems	1.2
Twist Bioscience	1.1
Exscientia	1.0
Health Catalyst	0.9
Relay Therapeutics	0.7
BioNTech	0.5
Zai Lab	0.5
Alector	0.5
Sage Therapeutics	0.4
Vir Biotechnology	0.3
Lyell Immunopharma	0.3
Sana Biotechnology	0.3
Abiomed CVR Line*	0.0
Cash	1.1
Total	100.0

Please note the fund information contained within this document is 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.

Abiomed was acquired in December 2022 by Johnson and Johnson. Holders received a cash allocation plus non-tradable contingent value rights (CVRs).

Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Acc	15 December 2020	GB00BMVLY038	BMVLY03	0.50	0.56
Class B-Inc	15 December 2020	GB00BMVLY145	BMVLY14	0.50	0.56

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. The Ongoing Charges Figure ('OCF') may be lower than previous declarations as a result of a revision to how the indirect fees associated with closed-ended investment companies need to be shown. This does not necessarily mean that fund expenses have gone down rather that we have reverted to how they have been calculated until 30 June 2022 to reflect the revised Investment Association's Guidance on Disclosure of Fund Charges and Costs (July 2020, updated January 2022, revised November 2023). A more detailed Costs and Charges disclosure is available upon request.

MSCI	Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.
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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 31 March 2024 and source is Baillie Gifford & Co unless otherwise stated.

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