Baillie Gifford International Growth Fund - 2023 Reflections

How have your portfolio companies been performing?
We are Growth investors, but within your portfolio, we hold a range of companies with quite different characteristics. Here, we highlight three broad categories:

-There is a cohort of young companies we describe as digital disruptors that provide goods in the real world, which we've held for several years. Many of these were significant Covid beneficiaries and some are now grappling with growth rates below pandemic highs and building a path to profitability faster than they had originally planned. Companies like Zalando in clothing retail, HelloFresh in meal kits, SEA in Asian e-commerce, and Delivery Hero in food delivery fall into this category. These companies have navigated a highly volatile external environment over the last four years. The questions we are asking now are where demand eventually settles and how mature they are. In many cases, competitors have disappeared, and much cost has been taken out, so the long-run economics could be very favourable. These businesses account for around 10% of the Fund and are where we have the most near-term uncertainty. We think that over the next year, we'll have greater clarity around the long-run economics of these businesses, and this is probably the area of most portfolio turnover. We'll likely add to some and sell others, as that long-term picture becomes clearer.

-The second group of companies are rapid growth businesses that have barely missed a beat. MercadoLibre may be the best example here. Their opportunity in Latin American e-commerce remains early, and they have built a new finance business that is going well. We also put in that category Pinduoduo, the Chinese e-commerce business that owns Temu; Wise, a UK-based money transfer business; and Mobileye, the Israeli company that makes semiconductors for the auto industry, with a particular focus on autonomous driving. So, roughly, you can think of these as the classic technology-focused companies you'd expect us to own. We firmly believe that technological progress is one of the driving forces behind the global economy, behind human progress, and we have plenty of companies that are driving that progress across a range of domains, and which are performing well.

-The third category we highlight may be less glamorous but comprises super-high-quality companies that can grow. Both parts of that matter. We're not in the business of buying profitable dullness. We require the growth opportunity. The attractiveness of these businesses is their capacity to reinvest at high rates of return that drive long-term value creation. Having said less glamorous, we put Ferrari firmly in this category. L'Oréal is another company you'll likely be familiar with, which we've held for you for some time. But also, the likes of AIA, the Asian life insurance business, or Atlas Copco, the Swedish engineer. Atlas is an excellent example of long-term stewardship and adaptation. 15 years ago, one of the drivers of that business was its mining equipment division. It spun that off to shareholders in 2018 and has reinvested the capital into building up a division selling vacuum pumps to the semiconductor industry. It's an adaptable business – dynamic and forward-looking, able to seek out new growth avenues and then address them in a deliberate way. It does this with a high return on investment hurdle rate.
We probably don't discuss these types of business as much as we should. But, maybe under the radar, they're just quietly getting on and delivering high-quality growth.

How is your portfolio positioned?
Trading activity remains low. You may see some new names enter your portfolio over the coming year, but we're very happy with the companies you have. You have a variety of quite idiosyncratic growth companies, but there are also some deliberate structural exposures. Among them are the continued digitisation of our world and China's re-emergence.

<u>Digitisation</u>
We expect Moore's Law, in a broad sense, to continue and to keep driving progress across a range of industries. You have exposure at the semiconductor manufacturing end of that process through the Dutch lithography business ASML, or TSMC, the leading semiconductor foundry. This year, we have been broadening that exposure with holdings like VAT Group, a Swiss company that makes vacuum valves, a critical part of the semiconductor manufacturing process. Digitisation remains an area of focus for our research activities. There are other companies with a few billion dollars in market cap that we're looking at, which you may see appear in the portfolio in the coming months.

Within digitisation, Artificial Intelligence, or AI, is clearly a massive development that we're watching closely. We don't know yet where the beneficiaries will appear, but we will need a lot more semiconductor manufacturing capacity, so the 'picks and shovels' mentioned above seem well placed. But we must also seek out potential AI winners as new companies appear. This is an area where returns will be highly asymmetric; some giant businesses could emerge. We need to be early and experimental enough to give ourselves the chance to own the big winners on your behalf.

<u>China</u>
We've spoken about China for a long time. Tom and Lawrence both visited China this year following the relaxation of Covid travel restrictions. Both reflected that it was great to be out there again, and despite being in close contact with our colleagues in Shanghai, there's no substitute for being 'on the ground'. We have three main thoughts here:

-The period of chronic geopolitical competition is here to stay. We expect continued friction over industrial policy – semiconductors, autos, healthcare, consumer goods, and online services in the recent past. That reality is here to stay, and we have to assume that the geopolitical headlines on top of that will ebb and flow.

-Domestic regulation in China. It's over three years now since Jack Ma's speech that, in many ways, prompted the crackdown on the country's technology sector. Since then, things have moved on. We're interested in tomorrow's growth stocks. We no longer hold Alibaba, which is one small way things have moved on. More generally, we are mindful that companies are probably capped in their scale, so this is one area where we are less likely to run our winners, as we tend to elsewhere.

-Don't underestimate China's impact on the rest of the world. As Lawrence says, you can't ignore China. We are looking for opportunities to make money for you in China – for example, in the Chinese EV and alternative energy systems. But there will also be a huge amount of market cap that is destroyed in the West, regardless of protectionist policies. Even in markets where China and the rest of the world are kept entirely separate, there will be knock-on implications – we don't know the long-run implications of semiconductor restrictions, for example. We need to take a broad view when thinking about China.

Overall, we have about 11% of your portfolio in China, much lower than three years ago, but you can't just draw a neat line around it. And while the headlines about geopolitics and regulatory pressure matter, companies like Pinduoduo demonstrate how vibrant and entrepreneurial a market is. China produces companies that can grow with a speed and a scale unmatched elsewhere. You probably won't see us have substantial individual company positions, reflecting the limited government tolerance for very large companies. Still, you should expect us to continue to have exposure across a range of businesses.

What we're optimistic about from here

There's no question that periods like the last two years are when investors are really tested and test their clients' patience. We have two very strong things in our favour: The partnership structure of our firm, which has been through times like this before and which provides an environment that allows investors to recover from periods of underperformance, and the quality of our clients, who in many cases have been with us for 15 – 20 years. We know we have tested your patience and sincerely appreciate your support.

But neither of those is good unless the team, the philosophy, the process, and the portfolio are all in good shape. We believe they are. The team has worked together for a long time, is highly motivated, and constantly strives to improve. It's really all about being long-term, understanding what our clients expect, and constantly raising the bar of what we do.

We think our philosophy of long-term growth investing is exceptionally well suited to a time of uncertainty and rapid change. We know markets have been difficult for the last couple of years. Still, it's been pleasing recently to see some positive share price reactions to companies delivering, whether that be Ferrari, MercadoLibre, Elastic or Spotify. We don't try to predict near-term market movements, but the operational progress of most of our holdings is good, their long-term growth prospects are strong, we're finding interesting new ideas in a range of areas, and – when you put that together with the great environment we work in at Baillie Gifford in and the quality of our client base – that leaves us very excited about the future. We are very appreciative of your support.

RISK FACTORS AND IMPORTANT INFORMATION

The Baillie Gifford International Growth Fund
(Share Class K) as of September 30, 2023

Gross Expense Ratio	0.60%
Net Expense Ratio	0.60%

Source: Baillie Gifford & Co

The Baillie Gifford International Growth Fund
Annualised total return as of September 30, 2023 (% p.a.)

	1 Year	3 Years	5 Years	10 Years
K Class	14.56	-10.06	1.71	4.81
Benchmark	21.02	4.25	3.05	3.97

Source: Bank of New York Mellon, MSCI. Net of fees, US dollars.
Benchmark: MSCI EAFE Index benchmark data used until November 22, 2019. MSCI ACWI ex US Index data used thereafter.

The performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end performance please visit our website at www.bailliegifford.com/en/usa/non-professional-investor/funds/baillie-gifford-international-growth-fund

Returns are based on the K share class from 28 April 2017. Prior to that date returns are calculated based on the oldest share class of the Fund adjusted to reflect the K share class fees where these fees are higher.

The Baillie Gifford fund's performance shown assumes the reinvestment of dividend and capital gain distributions and is net of management fees and expenses. Returns for periods less than one year are not annualised. From time to time, certain fees and/or expenses have been voluntarily or contractually waived or reimbursed, which has resulted in higher returns. Without these waivers or reimbursements, the returns would have been lower. Voluntary waivers or reimbursements may be applied or discontinued at any time without notice. Only the Board of Trustees may modify or terminate contractual fee waivers or expense reimbursements. Fees and expenses apply to a continued investment in the funds. All fees are described in each fund's current prospectus.

Expense Ratios: All mutual funds have expense ratios which represent what shareholders pay for operating expenses and management fees. Expense ratios are expressed as an annualized percentage of a fund's average net assets paid out in expenses. Expense ratio information is as of the fund's current prospectus, as revised and supplemented from time to time.

The MSCI All Country World ex US Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance in the global developed and emerging markets, excluding the United States. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

The Baillie Gifford International Growth Fund
Top Ten Holdings as at September 30, 2023

Holdings		Fund %
1.	MercadoLibre	6.99
2.	ASML	6.37
3.	Ferrari	5.32
4.	argenx	4.93
5.	Spotify	4.81
6.	Genmab	3.90
7.	Atlas Copco	3.68
8.	Tencent	3.46
9.	L'Oréal	3.33
10.	Meituan	3.07

It should not be assumed that recommendations/transactions made in the future will be profitable or will equal performance of the securities mentioned. A full list of holdings is available on request. The composition of the fund's holdings is subject to change. Percentages are based on securities at market value.

This content contains information on investments which does not constitute independent 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.

As with all mutual funds, the value of an investment in the fund could decline, so you could lose money.

The most significant risks of an investment in the Baillie Gifford International Growth Fund are Investment Style Risk, Growth Stock Risk, Long-Term Investment Strategy Risk, and Non-U.S. Investment Risk. The Fund is managed on a bottom up basis and stock selection is likely to be the main driver of investment returns. Returns are unlikely to track the movements of the benchmark. The prices of growth stocks can be based largely on expectations of future earnings and can decline significantly in reaction to negative news. The Fund is managed on a long-term outlook, meaning that the Fund managers look for investments that they think will make returns over a number of years, rather than over shorter time periods. Non-U.S. securities are subject to additional risks, including less liquidity, increased volatility, less transparency, withholding or other taxes and increased vulnerability to adverse changes in local and global economic conditions. There can be less regulation and possible fluctuation in value due to adverse political conditions. Other Fund risks include: Asia Risk, China Risk, Conflicts of Interest Risk, Currency Risk, Emerging Markets Risks, Equity Securities Risk, Environmental, Social and Governance Risk, Focused Investment Risk, Geographic Focus Risk, Government and Regulatory Risk, Information Technology Risk, Initial Public Offering Risk, Large-Capitalization Securities Risk, Liquidity Risk, Market Disruption and Geopolitical Risk, Market Risk, Service Provider Risk, Settlement Risk, Small-and Medium-Capitalization Securities Risk and Valuation Risk.

For more information about these and other risks of an investment in the fund, see “Principal Investment Risks” and “Additional Investment Strategies” in the prospectus. The Baillie Gifford International Growth Fund seeks capital appreciation. There can be no assurance, however, that the fund will achieve its investment objective.

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