



# Baillie Gifford International Smaller Companies Fund

## Fourth Quarter 2022

### About Baillie Gifford

#### Philosophy

Long-term investment horizon  
A growth bias  
Bottom-up portfolio construction  
High active share

#### Partnership

100% owned by 51 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

### Portfolio Summary

The Baillie Gifford International Smaller Companies Fund seeks capital appreciation by investing in a diversified international portfolio of 75+ quality growth stocks of smaller companies located in countries of developed and emerging markets which we believe will outperform the market over the long-term. The portfolio is built through active bottom-up stock selection by the International Smaller Companies Portfolio Construction Group principally without regard to the Fund's benchmark, the MSCI ACWI ex USA Small Cap Index.

### Fund Facts

K Class Ticker	BICKX
Institutional Class Ticker	BICIX
Launch Date	December 19, 2018
Size	\$35.5m
Benchmark	MSCI ACWI ex-USA Small Cap Index
Stocks (guideline range)	75+
Current Number of Stocks	86
Active Share	98%*
Annual Turnover	14%
Style	International Small Cap

\*Relative to MSCI ACWI ex-USA Small Cap Index. Source: Baillie Gifford & Co, MSCI.

Active Share is a measure of the Fund's overlap with the benchmark. An active share of 100 indicates no overlap with the benchmark and an active share of zero indicates a portfolio that tracks the benchmark.

### International Smaller Companies Portfolio Construction Group

Name	Years' Experience
Brian Lum	17
Praveen Kumar	15
Steve Vaughan	11
Charlie Broughton	9

*Investors should consider the investment objectives, risks, charges and expenses carefully before investing. This information and other information about the Fund can be found in the prospectus and summary prospectus. For a prospectus and summary prospectus, please visit our website at [bailliegifford.com/usmutualfunds](http://bailliegifford.com/usmutualfunds) Please carefully read the Fund's prospectus and related documents before investing. Securities are offered through Baillie Gifford Funds Services LLC, an affiliate of Baillie Gifford Overseas Ltd and a member of FINRA.*

### Fund Performance as of December 31, 2022



Gross Expense Ratio	
Share Class – K	1.84%
Share Class – Institutional	1.91%

Net Expense Ratio	
Share Class – K	0.90%
Share Class – Institutional	0.97%

Benchmark: MSCI ACWI ex USA Small Cap Index

*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 the Fund's website at [bailliegifford.com/usmutualfunds](http://bailliegifford.com/usmutualfunds).*

*The Baillie Gifford Fund's performance shown assumes reinvestment of dividend and capital gain distributions and is net of management fees and expenses. 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. All fees are described in the Fund's 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 net expense ratios for this fund are contractually capped (excluding taxes, sub-accounting expenses and extraordinary expenses) through April 30, 2023. \*Not annualized.*

The MSCI ACWI ex USA Small Cap Index captures small cap representation across Develop Market countries (excluding the United States). This unmanaged index does not reflect fees and expenses and is not available for direct investment. The Fund is more concentrated than the MSCI ACWI ex US Small Cap Index.

Source: Baillie Gifford & Co, Bank of New York Mellon, MSCI. Share Class launch date: December 19, 2018. NAV returns in US dollars.

## Stock Level Attribution

Quarter to December 31, 2022

### Top Five Contributors

Asset Name	Contribution (%)
Brunello Cucinelli	1.05
Avanza Bank	0.85
AirTac International Group	0.64
Raksul	0.57
Games Workshop	0.55

### Bottom Five Contributors

Asset Name	Contribution (%)
Maytronics	-0.67
Bengo4.Com	-0.41
Alk-Abello	-0.32
GA Technologies	-0.28
Nayax	-0.26

One Year to December 31, 2022

### Top Five Contributors

Asset Name	Contribution (%)
Brunello Cucinelli	1.23
Global UniChip	0.68
Kamakura Shinsho	0.59
Istyle	0.48
U-Blox	0.44

### Bottom Five Contributors

Asset Name	Contribution (%)
Hypoport	-3.12
Megachips	-1.51
Maytronics	-1.49
ASPEED Technology	-1.47
Victoria	-1.34

Source: StatPro, MSCI, Baillie Gifford International Smaller Companies Fund relative to MSCI ACWI ex-USA Small Cap Index.

*The performance data quoted represents past performance and it should not be assumed that transactions made in the future will be profitable or will equal the performance of the securities mentioned. For the most recent month-end performance please visit our website at [baillieghifford.com/usmutualfund](http://baillieghifford.com/usmutualfund). A full list of holdings is available on request. The composition of the Fund's holdings is subject to change.*

*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.*

## **Market environment**

The ongoing Covid-19 pandemic, the protracted Ukraine-Russia war, natural disasters worldwide, heightening geopolitical tension between China and the west, supply chain disruptions, rampant inflation and rising interest rates made 2022 a year to remember for mostly the wrong reasons. The web of these complex issues was extremely difficult to disentangle and propagated to new areas in unpredictable ways. This led to a prolonged period of deep uncertainty in economic and societal terms.

But 2022 was also a year of exciting scientific and technological breakthroughs, the impact of which could be transformative. For example, take the Food and Drug Administration's first approval of cultivated meat, scientists' breakthrough in nuclear fusion, or the accelerating cadence of biotech developments such as cancer vaccines. These may not grab the same amount of news coverage as the 'crisis-of-the-day', but each of these examples has the potential to be truly transformational.

## **Performance**

Over the quarter, Bengo4.com, Maytronics and Alk-Abello detracted from performance. Bengo4.com, a Japanese online platform connecting lawyers with clients, reported a decrease in its operating profit despite an increase in sales for the quarter ending September 30th. This decrease in operating profit is partly due to investment in advertising and personnel, which we believe is crucial for future growth but can conflict with markets' short-term time horizon. We have recently met with the company in Japan and came away feeling upbeat as we learnt about new product ideas and their efforts to strengthen the brand. Its founder, Taichiro Motoe, has recently returned to the business to drive growth following a political appointment from which he resigned. Maytronics, the Israel-based robotic pool cleaner maker, also experienced share price weakness. This is despite the company reporting high revenue growth for its third quarter. It is possible the market has reacted to a challenging pool season due to cold and wet weather, and there were additional macroeconomic headwinds from electronic component shortages to rising fulfilment costs. Their safety products division also thrived, and November saw them launch their 'Dolphin Liberty' range, a new generation cordless product. Shares in Alk-Abello, the Danish maker of allergy immunotherapy treatments, also hurt relative performance. Its most recently released quarterly results were positive, with sales growth up over the year. However, allergy tablet sales increased slower than expected due to destocking by wholesalers and a weak tree pollen season. As a result, the company lowered its sales guidance for 2022. They have also announced the retirement of their Executive Vice President of Research and Development after 19 years and the resignation of the Chief Financial Officer (CFO). The replacement of the former has been secured, and the search for the CFO is underway.

Brunello Cucinelli, Avanza and AirTac were among the top contributors. Brunello Cucinelli, the Italian high-end luxury clothing firm, raised its revenue guidance for 2023 and 2024 after reporting healthy revenue growth for the first nine months of 2022. As a result, it looks set to meet its 10-year target of doubling sales by 2028, four years early. It has also signed a 10-year deal with Luxottica to manufacture and distribute eyewear under the Brunello Cucinelli brand. Avanza, the Swedish online savings bank, continued to be a well-run business with a strong customer focus. In December, it won the Swedish Quality Index award for most satisfied savers for the 13th year. The bank also exceeded market forecasts with higher-than-expected Net Interest Income and commission earnings following its third-quarter results. AirTac, a Chinese pneumatic equipment manufacturer, was also a top contributor after detracting from performance in the previous quarter. Despite missing its earnings targets and lowering the 2022 guidance as a result of weaker sales, shares appear to have risen due to a more benign operating environment within China. Following the 20th National Congress of the Chinese Communist Party, the government has relaxed the zero-covid policy. In November, it also announced policies to buttress the broader economy. All these factors, alongside the increasing electric vehicle and battery maker demand, represent a tailwind for AirTac.

## **Notable transactions**

We sold out of Hotel Chocolat, the UK-based chocolate manufacturer and retailer. New buys over the period included Trustpilot, an independent online review platform, and freee, a Japanese cloud-based accounting and HR software provider.

## New Purchases

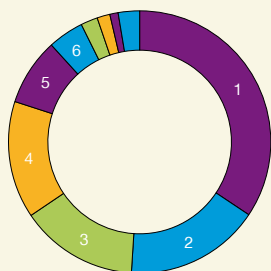
Stock Name	Transaction Rationale
freee K.K.	<p>Freee is a cloud-based accounting and HR software provider operating a Software as a service (SaaS) model, focussing mainly on small and medium-sized enterprises (SMEs) in Japan.</p> <p>Opportunity: they have a total addressable market of around 6mn SMEs, of which they currently have only c. 300K. The overall market size is estimated to be \$5bn - \$10bn, and Freee's sales are now just over \$100mn making it a sizeable market opportunity. SMEs in Japan are steadily moving away from on-premise to cloud-based software solutions, proving to be a strong tailwind for Freee.</p> <p>Edge: Freee's products are easy to use, scalable, reasonably priced, and offer customers a whole array of valuable functions that are easy to install. Their overall package provides seamless interaction and integration between different functions like accounting, invoicing, HR, etc.</p> <p>Alignment: run by a young, dynamic founder with a significant stake in the business and an ex-Google engineer with a deep understanding of product development and an appreciation of the specific quirks within the Japanese market.</p> <p>Scalability: a cloud-based product designed to be scalable. New functions and modules can be added to the core platform with minimal coding, so little IT expertise is needed, which otherwise can be a big draw for less IT-savvy SMEs.</p> <p>Insight: this is an immature market where Freee has already established a market-leading position, and management focuses on delivering growth by sticking to their core areas of accounting and HR. The market underestimates the duration of the growth opportunity and underlying margin expansion including earnings potential.</p> <p>Sustainability: a young company still finding its feet in sustainability practices, but broader adoption of cloud-based systems, in general, should reduce the energy, labour and operational intensity of Freee's end consumers.</p>
Nanoform Finland	<p>Nanoform is a biotechnology company which uses super-critical carbon dioxide to reduce the size of drug particles and make them more readily absorbable by the body.</p> <p>Opportunity: Poor solubility is a key reason why the \$180bn spent each year by the pharma industry developing over 18,000 drugs results in less than 50 approved products, so Nanoform's solution has the potential to be widely applicable.</p> <p>Edge: Various attempts have been made to solve this problem in the past, but there is some evidence that this time might be different. Nanoform has been able to demonstrate that their unique combination of physical inputs may allow for faster absorption with smaller doses of drugs than peer methods, with recent validation of this from the likes of Astra Zeneca who have studied the applicability of Nanoform's technology.</p> <p>Scalability: It remains early days but Nanoform has partnerships with over 30 pharma and biotech companies who are paying for access to the technology and who fund drug development. In future there is also some probability the company can earn royalties on a diverse range of drugs in return for meaningfully improving patient outcomes.</p> <p>Alignment: This is a founder-led business with positive insider ownership, but we are further impressed with the high-calibre team they have been able to recruit as they commercialise their product, and see that as some further validation of their approach.</p> <p>Sustainability: We believe the company contributes to good societal outcomes, with improvements in health economics and the safety and efficacy and drug developments made possible, alongside a small manufacturing footprint.</p> <p>Insight: The novelty of Nanoform's technology means only the milestones of more partner programmes moving further into clinical trials can really provide ultimate validation. But the evidence so far seems very positive, and we feel confident that the management team can deliver.</p>
Trustpilot Group	<p>Trustpilot is an independent online review platform providing consumers with reliable information on online products and services.</p> <p>Opportunity - The structural growth of online retail creates a need for an independent provider of reliable reviews. Trustpilot has already reached critical mass in its Danish home market, and is close to maturity in the UK. If they can mimic this progress internationally while also winning greater wallet share from existing customers there will be a long runway for growth.</p> <p>Edge - There should be a network effect here. More users on the site encourages more businesses to sign up, which in turn attracts more users. There are also increasing regulatory barriers to entry given the legal requirement to fight fake reviews.</p> <p>Scalability - Once a business is a customer, selling additional features should have little cost, improving profitability as the business matures.</p> <p>Alignment - The company's founder still runs the business as CEO and retains a 2% stake.</p> <p>Sustainability - The company is focused on enabling trust and safety when active online. As a great portion of society interacts over the internet the company will hopefully become a driving force in preventing fraud and driving positive interactions.</p> <p>Insight - This remains an unprofitable growth business. Our edge relies on our willingness to look through the heavy investments today and focus on the attractive unit economics of the steady-state, which should over time emerge as the company reaches critical mass. We also think the business is unfairly overlooked, given its European origins, relative to its higher-profile US peers.</p>

Transactions from 01 October 2022 to 31 December 2022.

### Complete Sales

Stock Name	Transaction Rationale
Hotel Chocolat	We have chosen to sell your holding in UK chocolate maker Hotel Chocolat. The business continues to do well in its home market; however, operational challenges in its nascent Japanese and American businesses this year have led management to step back from international growth going forwards and focus on the UK. Without the optionality of new global markets we believe the growth opportunity here is diminished. Our conclusion is that there are now more compelling opportunities in our investment universe.

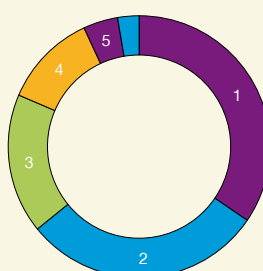
**Sector Analysis (%)**



1	Information Technology	34.36
2	Industrials	16.65
3	Financials	14.54
4	Consumer Discretionary	14.45
5	Communication Services	8.26
6	Health Care	4.42
7	Real Estate	2.09
8	Consumer Staples	1.59
9	Materials	1.02
10	Cash	2.63

Total may not sum due to rounding. The composition of the Fund's holdings is subject to change. Percentages are based on securities at market value.

**Geographic Analysis (%)**



1	Europe (ex UK)	34.52
2	Developed Asia Pacific	29.64
3	Emerging Markets	17.28
4	UK	11.65
5	North America	4.28
6	Cash	2.63

Total may not sum due to rounding. The composition of the Fund's holdings is subject to change. Percentages are based on securities at market value.

**Top Ten Holdings**

Holdings	Fund %	
1	AirTac International Group	4.79
2	Avanza Bank	4.50
3	Global UniChip	3.35
4	Kinaxis	3.15
5	Brunello Cucinelli	3.12
6	Sensirion	2.84
7	ADDTECH	2.71
8	RakSul	2.64
9	Reply Spa	2.52
10	Chroma Ate	2.17

The composition of the Fund's holdings is subject to change. Percentages are based on securities at market value.

**Portfolio Characteristics**

Number of holdings	86
Number of countries	19
Number of sectors	9
Number of industries	33
Active Share	98%*
Annual Turnover	14%

\*Relative to MSCI ACWI ex-USA Small Cap Index. Source: Baillie Gifford & Co, MSCI.

**Voting Activity**

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	11	Companies	1	Companies	None
Resolutions	67	Resolutions	1	Resolutions	None

**Company Engagement**

Engagement Type	Company
Corporate Governance	Naked Wines plc
AGM or EGM Proposals	CreditAccess Grameen Limited

There are four options that an engagement can be tagged as:

- 'Corporate Governance' (engagement on corporate governance issues and the governance of companies),
- 'Executive Remuneration' (pay of executives),
- 'Environmental/Social' (any issues)
- 'AGM or EGM Proposals' (engagement with proposals)



Votes Cast in Favour

Companies	Voting Rationale
Alpha FX, Biocartis Gp, CleanSpace Hdgs, Colopl Inc, Demae-Can, Dotdigital Group, Maytronics, Netwealth Gp, Raksul Inc, Storytel, Vulcan Energy Resources	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Companies	Voting Rationale
Storytel	We opposed the resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

Votes Not Cast

Companies	Voting Rationale
U-Blox	We did not vote due to the practice known as "blocking" - the rules in some markets which restrict us from selling your shares during the period between the votes being cast and the date of the meeting.

Asset Name	Fund %
AirTac International Group	4.79
Avanza Bank	4.50
Global UniChip	3.35
Kinaxis	3.15
Brunello Cucinelli	3.12
Sensirion	2.84
ADDTECH	2.71
RakSul	2.64
Reply Spa	2.52
Chroma Ate	2.17
KATITAS	2.09
Games Workshop	1.98
Megachips	1.85
Koh Young Technology	1.74
Tsugami	1.71
Maytronics	1.62
Hypoport	1.60
eGuarantee	1.59
Keywords Studios	1.58
ASPEED Technology	1.56
HMS Industrial Networks	1.54
Bossard	1.53
Douzone Bizon Co	1.50
Victoria	1.50
Alpha FX	1.36
Technogym	1.34
Iriso Electronics	1.31
Kamakura Shinsho	1.29
DMG Mori	1.29
Paradox Interactive	1.18
Netwealth	1.16
New Work	1.16
Docebo	1.13
tonies	1.11
Alk-Abello	1.10
CreditAccess Grameen	1.10
Snow Peak	1.09
Bengo4.com	1.09
Burford Capital	1.02
Melexis	1.01
FD Technologies	0.98
Team 17 Digital Limited	0.95
u-blox	0.93
Johnson Electric	0.90
GA Technologies	0.89
WealthNavi	0.89

Asset Name	Fund %
JMDC	0.85
Outsourcing	0.85
KH Neochem	0.83
Optex	0.80
ESI Group	0.80
COLOPL	0.76
Sansan	0.75
Shima Seiki Mfg.	0.70
Nayax	0.68
Kitanotatsujin	0.66
AUTO1	0.63
Trustpilot Group	0.59
dotdigital	0.57
TCI Co	0.55
Molten Ventures	0.54
Infomart	0.51
Istyle	0.49
Locondo	0.48
Freee	0.47
Nanoform Finland	0.43
Xvivo Perfusion	0.43
VNV Global	0.41
Volpara Health Technologies	0.39
Inter Action Corporation	0.37
Anicom	0.37
Aumann	0.33
Naked Wines	0.30
ANGLE	0.29
Bactiguard	0.28
CellaVision	0.27
Cafe24	0.24
Vulcan Energy	0.20
Demae-Can	0.19
Hypebeast	0.18
CleanSpace	0.18
Storytel	0.18
Collectis	0.14
Wantedlab	0.09
Veganz Group	0.08
Biocartis	0.05
Cash	2.63
<b>Total</b>	<b>100.00</b>

Total may not sum due to rounding. The composition of the Fund's holdings is subject to change. Percentages are based on securities at market value.

## Important Information and Fund Risks

Past performance is not a guide to future returns. This document 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.

The Funds are distributed by Baillie Gifford Funds Services LLC. Baillie Gifford Funds Services LLC is registered as a broker-dealer with the SEC, a member of FINRA and is an affiliate of Baillie Gifford Overseas Limited.

All information is sourced from Baillie Gifford & Co unless otherwise stated. All amounts are in US dollars unless otherwise stated.

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 Smaller Companies Fund are Investment Style Risk, Small-and Medium Capitalization Securities Risk, Growth Stock Risk, Long-Term Investment Strategy Risk, Asia 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 shares of small-and medium-capitalization companies can be more volatile than larger companies. This can be more evident during market downturns as they may have potentially reduced liquidity and shorter operating histories. 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. Some Asian securities may be less liquid than US or other foreign securities. They can be affected by high inflation, currency fluctuations, political instability and less efficient markets. Many Asian economies are dependent on international trade and only a few industries and can be badly affected by trade barriers. 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: Conflicts of Interest Risk, Currency Risk, Emerging Markets Risk, 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, Japan Risk, Liquidity Risk, Market Disruption and Geopolitical Risk, Market Risk, New and Smaller-Sized Funds Risks, Service Provider Risk, Settlement 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. There can be no assurance that the Fund will achieve its investment objective.

Baillie Gifford International Smaller Companies Fund seeks capital appreciation. There can be no assurance, however, that the Fund will achieve its investment objectives.

Any stock examples, or images, used in this presentation 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.

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