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# INTERNATIONAL GROWTH WEBINAR SUMMARY

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Nick Thomas and Christel Brodie, investment specialists on the International Growth Team, highlight some of the key topics discussed in their recent webinar.

*All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Income is not guaranteed. Past performance is not a guide to future returns.*

*This recording was produced and approved in March 2022 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.*

**Christel Brodie (CB):** Hello everybody, welcome to this short video on our International Growth strategy. I'm Christel Brodie and I am here with Nick Thomas.

Today we will cover our approach to investing during more difficult periods. We will also talk about the long-term growth drivers in the portfolio, and we will provide some interesting details on developments for the holdings we own.

Many of our remarks are aimed at putting the recent period of poor relative performance and considerable volatility into context, and outlining the positioning of the portfolio for the future.

**Nick Thomas (NT):** Okay, let's start with our approach to investing during more difficult periods. In International Growth, our aim is to deliver attractive long-term returns to our clients by being patient owners of exceptional growth companies.

We believe our edge in doing this is in being patient, being willing to get things wrong in search of outliers, and in seeking wisdom from outside the financial system. We know it's critical to stick to this discipline when short-term results are poor, as they are at present. The stability of our firm and the long-term orientation of our client base helps us to stay the course.

There is an unusual amount of uncertainty that we are all having to cope with at the moment. As we are hopefully exiting the Covid pandemic, government stimulus is ending, interest rates are starting their journey back towards more normal levels, and consumer behaviour is adjusting. This process has been having a negative effect on the valuations of high growth businesses over the last six months.

And as the market was digesting all those unpredictable forces, a devastating war has broken out in Ukraine. We are all aware that we have very limited ability to predict its course, or its implications.



But what we are able to do, is analyse our individual companies, check that they are operationally doing what we would expect, and we are constantly questioning whether we are on the right track in terms of those long-term structural trends that we are invested in.

As we deal with the challenges of bottom-up growth investing in a time of turmoil, the mental model we are using is the one of Intel. Its share price rose as much as 20 times during the 1970s, against a turbulent backdrop of rising inflation and interest rates, wars in the Middle East and so on.

The fundamental progress of its technology outweighed all the external headwinds that it faced. We observed that its share price also witnessed two significant drawdowns over that decade, and we know our own holdings will have similar periods of difficulty even if they also turn out to be long-term winners.

So it's our job to look through short-term volatility, take the short-term pain, and deliver long-term returns.

**CB:** Let's now discuss the long-term growth drivers in the portfolio.

Moore's Law underpins a lot of the exciting themes present within the portfolio as a result of our stock picking.

It states that every 18 to 24 months, computing power doubles whilst costs of computers halve. From our interactions with many companies in the semiconductor industry and with IMEC, a Belgian Research Institute, we are confident this law will hold for another couple of decades.

And we have direct exposure to it. We hold shares in ASML, a leading manufacturer of lithography machines. We also recently bought a holding in TSMC, a Taiwanese manufacturer of sophisticated semiconductors.

In addition, Moore's Law enables many other themes, such as the confluence of technology and healthcare, which we call the 'health innovation' theme. It allows a better understanding of human biology and diseases. Which in turn leads to the development of new medicines and diagnostics tools.

Another theme that is relatively new and quite small in the portfolio context today, but growing, is renewable energy.

For quite some time, solar power and wind power have been getting cheaper and better by 20 per cent to 25 per cent per year. As result, we are already starting to see a very significant roll out of wind and solar technologies globally.

It will take some time for renewable energies to be in place. Although this exciting theme has a little presence in our portfolio today, we expect its contribution to grow over the coming decade.

Overall, we continue to believe that the themes or megatrends in the portfolio are set to continue, and could provide great investment opportunities into the long term.



**NT:** Let's now move on to some interesting developments at the stock level.

In the current environment, it would be dangerous to do too much. So, as always, we are being patient. But we are not doing nothing. In the last few weeks, we have taken advantage of some share price declines to either buy new holdings or add to small existing positions.

So last year we started a small position in Coupang, a Korean ecommerce business, when it listed. As its share price has fallen and following an update that we conducted of its investment case, we took the opportunity to increase its size in the portfolio recently.

Last year, we also discussed SEA, which is a South-East Asian ecommerce and gaming business. We liked it, but back then and we struggled to see significant upside in its shares. Following a 60 per cent price fall, we have taken the chance to build a new holding.

So those are two examples of us responding to weak share prices where the operational performances of the businesses and their long-term prospects are still compelling.

As you would expect, we have also been revisiting the investment cases of some existing large holdings which have suffered weak share prices. We have not made many changes. This reflects our conviction that fundamentals remain strong and that their valuations have become substantially more attractive.

**CB:** To conclude, we think that the role of financial markets – fundamentally – is to support long-term growth investment in the productive parts of the economy. And that's really what we are trying to do, and do it in a way that adds value to clients.

We believe that being patient owners of exceptional growth companies during hard times will stand us in good stead in the future. We are excited about the outlook for growth investment over the next five or 10 years.

Thank you very much for watching. If you have any questions, please reach out to your client contact or visit our website where there is more information about our International Growth Strategy.

#### **Annual Past Performance to 31 December Each Year (Net %)**

	2017	2018	2019	2020	2021
International Growth Composite	45.5	-16.7	36.7	64.6	-10.1
MSCI ACWI ex US	25.6	-12.3	22.1	11.1	8.3

#### **Annualised returns to 31 December 2021 (Net %)**

	1 Year	5 Years	10 Years
International Growth Composite	-10.1	19.6	13.0
MSCI ACWI ex US	8.3	10.1	8.6



Source: Baillie Gifford & Co, MSCI. USD.

Past performance is not a guide to future returns.

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