INTERNATIONAL CONCENTRATED GROWTH Q1 INVESTMENT UPDATE

Investment specialist Hamish Maxwell and Investment Manager Paulina McPadden give an update on the International Concentrated Growth Strategy covering Q1 2023.

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

This communication was produced and approved in April 2023 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

Hamish Maxwell (HM): Hello, and thanks for watching this short quarterly update on the International Concentrated Growth (ICG) strategy. I'm Hamish Maxwell, an investment Specialist on ICG, and I'm joined by Paulina McPadden, who is one of the three portfolio managers who, as a team of three, look after the ICG strategy. This video is a high-level update on ICG, including some market background, what we've been doing with the portfolio recently, and a forward-looking view on what's exciting us about growth.

ICG is a concentrated portfolio of exceptional international growth companies. And by exceptional, we mean businesses that are right at the heart of driving transformation in societies and economies around the world. And this can be a really valuable way to invest, as it's clear that only a small number of the best businesses create the majority of returns in the market, and it's often those businesses that are creating change that do especially well.

By following this approach, ICG's long-term outperformance has been really strong. Like lots of other growth funds, we did find 2022 to be really difficult as sentiment shifted against our style of investing. But for even the best-performing long-term strategies, periods of volatility are inevitable. They're impossible to time, but they are inevitable.

More recently, we've had a really good start to 2023, comfortably outperforming the benchmark as some of our platform businesses in the Americas, Europe and China did really well, and our lack of exposure to traditional banks, which we see as totally disruptable, also helped.

Having said that, short-term volatility should still be anticipated, especially as supply chains, inflation and interest rates all take time to settle down. But as Paulina is going to highlight, we're clear that studying the short term is not how to understand meaningful returns. Rather, the long term holds the key. Paulina, thanks for joining us. How would you characterise the background recently?

Paulina McPadden (PM): Thanks for having me, Hamish. One of the ways in which we're thinking about what's gone on in the past year is Adam Tooze's idea of the polycrisis. So Tooze is an economic historian at Columbia University, and he talks about world events as being part of a complex, interconnected system. So last year, we had a combination of a war, a global supply chain crisis, interest rate growth, inflation, all combining to drive the sudden lack of confidence and a focus on short-term macroeconomic conditions by the market.

And in times like this, I think it's really important for us as investors to focus on what our core task is and resist that temptation to be thinking about half-point increases in interest rates on a quarterly basis. So, we're going back to and remaining compelled by the academic work of thinkers like Bessembinder and asymmetric returns, Schumpeter and the power of creative destruction, and, of course, Carlota Perez's thinking on the nature of technological cycles.

And when we think about the world in this way, what we see is that the stock market remains very much dominated by businesses that are in terminal decline and are being challenged by innovative, disruptive companies. And the recent market drawdown in that case is an opportunity for us to take advantage of where the share prices of some really compelling businesses have potentially dropped, even though their growth rates and competitive positions may have strengthened.

So the challenge for us remains to see this period as an opportunity and focus on that core philosophy of finding the companies that are driving and enabling structural change.

HM: Yes, I see. So it's about recognising what's happening in the market, but it's a discipline in shifting the focus to the perspective, the long-term perspective, which is where the true value, understanding the true value lies. With this perspective in mind, how are we approaching portfolio positioning?

PM: Well, we're very lucky, and we think that we continue to own some of the most disruptive and innovative companies in the world. So that's companies like MercadoLibre, which is transforming e-commerce and the financial sector in Latin America, Moderna, which is changing the way that we think about healthcare, or Meituan, the Chinese platform business that recently delivered as many meals in one day as there are people in the United Kingdom.

But our analysis recently also revealed that we have a very resilient portfolio, where by resilient, I mean companies that have ready access to cash, that have strong growth rates, and therefore that enables them to reinvest in future long-term growth, and that have much lower debt levels than the market.

So we've seen the recent volatility as a chance to add to some holdings where we think that there's been a disconnect between share price decline and actual upside. So we've recently added to NIO, the Chinese electric vehicle manufacturer, and Kinnevik, the European tech investment firm.

And we're also reflecting on the fact that the world has shifted from a period of capital abundance, where cash was effectively free, to a period of capital scarcity. And that's forcing and influencing quite a lot of management teams to think about the bottom line and profitability just as much as they've thought about top line growth in the past.

And we're seeing companies like the audio streaming service, Spotify, restructuring their workforce to enable greater efficiencies and therefore hopefully drive even stronger long-term growth, while at the same time, some companies that have been profitable for a long time, such as Adyen, the financial services platform, they're seeing this as an opportunity to hire some of the best talent as a result of the lay-offs in the sector. And the challenge for us as investors is to make sure that this renewed focus on profitability doesn't undermine the potential for long-term growth from here.

HM: I see. I was reflecting recently on the team of three, the portfolio construction group of three managers, you, Lawrence and Spencer, and how you each have an interest in your lines of inquiry. But the one thing that brings you together is this interest in transformational growth trends. And I know you share the view that the most valuable trends are really, really long term. They're years in the making. So how do you reflect the fact that these trends are years in the making into a process today?

PM: Well, you're absolutely right in that when you're trying to find the companies that are benefiting from these long-term structural trends in the economy, you really have to look elsewhere for your insights. And it's this restlessness for knowledge that has really driven the ICG process over the last two decades.

As a current example, two of the main themes that we're thinking about are changing healthcare and the energy transition. So we've had healthcare or biotech companies in the portfolio for some time, and companies like M3 in Japan, Genmab in Europe, more recently, Moderna and Ginkgo in the US. And with the energy transition, it's one that we're continuing to explore, and thinking about what does the structure of returns look like in an industry that is fundamentally based on building lots of stuff and building lots of infrastructure.

But in the first quarter of this year, we did make a new holding in SolarEdge, the Israeli inverter manufacturer, because we believe that this is a company and an industry that's going to play a really large role in the build-out of renewable energy. We're also seeking insight into new markets like Southeast Asia and India.

And you're right, the most valuable growth trends will play out over many years, so it's important for us as investors, as the world changes and the companies that we own adapt, we have to adapt as well and continue seeking these insights.

HM: Yes. So acknowledging again that we have encountered one of these periods of volatility recently which are inevitable, impossible to time but are inevitable, but ICG's success over nearly two decades has been based on this long-term perspective which you've highlighted and reinforced. Is it fair to conclude then that you're optimistic about the long term for the strategy?

PM: Absolutely. In the pursuit of extreme returns, what really matters the most is understanding the fundamentals that drive that underlying growth. And it's about looking for companies that are offering a fundamentally better product or service to consumers, because consumers and customers who are excited about it are what's going to drive this massive market share growth, either in existing markets or in entirely new ones.

And a long-term view is absolutely fundamental to this, because short-term volatility is inevitable. There is so much research that tells us that even for the best companies and strategies, intermittent, occasionally very deep drawdowns are inevitable. They are going to happen, and it's about being able to persist throughout them.

So I hope what's come out of this short recording is just how excited we are about the change and the growth to come still, and that this period of volatility is an opportunity for us as investors.

HM: Paulina, thanks for those comments, and thanks for joining us, and thanks to those who have watched this recording. We hope you found this update on ICG useful, and if you have any questions or comments, please do reach out to your client contact. Thank you. Goodbye.

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Annual Past Performance to 31 March Each Year (Net %)

	2019	2020	2021	2022	2023
International Concentrated Growth Strategy	0.4	7.7	105.0	-20.3	-9.7
MSCI ACWI ex US Index	-3.7	-15.1	50.0	-1.0	-4.6

Annualised returns to 31 March 2023 (Net %)

	1 Year	5 Years	10 Years
International Concentrated Growth Strategy	-9.7	9.8	13.9
MSCI ACWI ex US Index	-4.6	3.0	4.7

Source: Baillie Gifford & Co and MSCI. USD.

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