Baillie Gifford International Growth

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International Growth Q2 2026 quarterly insights | Baillie Gifford Ireland Professional investor Change Client Login Contact us You are viewing this site as a Professional Investor in accordance with MiFID legislation in Ireland. You can change this at any time. If you confirm these details are correct, we'll save this information. The details you select will be saved for 90 days. 01. Your location Ireland Change Select region Europe, Middle East & Africa Americas Asia Pacific Select country Ireland Austria Belgium Denmark Finland France Germany Guernsey Iceland Israel Italy Jersey Luxembourg Netherlands Norway Portugal South Africa Spain Sweden Switzerland UK Country not listed? View the global site 02. Your user type Professional investor I am a professional investor as defined in MiFID II. Intermediaries I am a financial adviser. User type not listed? View the global site Strategies Funds Insights Private growth investing About us Careers Search Client Login Contact us Home Insights International Growth Q2 investor letter Article International Growth: investor letter Q2 2026 July 2026 / long read Overview The International Growth Team shares insights on Q2 2026, covering the strategy's recent performance, portfolio adjustments, and market influences. Share As with any investment, your capital is at risk. Past performance is not a guide to future returns.

A few weeks ago, historian Adam Tooze visited our offices to speak with a small group of us, and in the course of our discussion, a colleague said to him, "I've been doing this job for 12 years and over that time, it feels like there have been two very different periods. The first was relatively calm, and more recently it's been much more volatile. Which do you think is normal?" Adam replied, "I think you need to get used to the second situation, that's the world we now live in." That framing is useful, but this shouldn't be a surprise; we've been discussing this period of uncertainty and its drivers for some time now. But we need to think not just in terms of challenges but also the opportunities that profound change offers for companies that can take advantage. There are two parts to this environment: the real world and financial markets. In the real world, several forces are likely to remain with us for many years: a higher interest-rate environment than the prior decade; a technological revolution centred on artificial intelligence that could transform industries, economies, and societies 1 ; geopolitical fragmentation, underpinned by the long reality of China's re-emergence; greater political polarisation in Western democracies; and a continued, uneven energy transition, complicated by the growing energy demands of AI. Interacting with those real-world forces are several features of financial markets: high retail participation, the continued rise of passive ownership, a large private-markets ecosystem where valuations are not always marked to market and liquidity can be shallow, and a high degree of concentration in listed equities, particularly in the US and parts of Emerging Markets. The combination can produce markets that move first and ask fundamental questions later. Share prices are often driven by narratives, momentum and the anticipated earnings outcome for the next quarter. That can be deeply uncomfortable when it works against you. But it can also be useful. The same market features that create abrupt dislocations can create opportunities for patient active management, provided it is genuinely selective, long-term and willing to be different, using that noise to buy, or resize positions when share prices and long-term fundamentals diverge. 1 Not to mention our brains. See my colleague

Tom Slater's recent note: AI isn't coming for your job. It's coming for your mind Recent investment returns After the value rally in international markets in 2025, investment returns in the first half of 2026 have been shaped by two contrasting features. The second quarter produced strong absolute returns, though the portfolio modestly lagged the ACWI ex US index. Over the last 12 months, relative performance has been much weaker. This is a disappointing outcome and, in our judgement, does not reflect the fundamental strength of your portfolio or its long-term earnings potential. The important point is that a gap has opened between recent share-price outcomes and underlying business progress. That gap is painful in the short term, but it is also the source of future opportunity. We are seeing more individual companies trading at compelling valuations despite continued strong revenue and earnings growth. When markets over-penalise growth The first feature of recent returns was the 'SaaSpocalypse' valuation hit to many digitally-enabled businesses, which began in February. Our view is that the reaction has been both overdone and indiscriminate. We have spent the last few months talking to affected companies and challenging ourselves from first principles about their place in the value chain and the strength of their customer propositions. In many cases, these companies are deeply embedded in their customers' operations. They are agile and adaptable, often led by committed, technologically aware founders, and, in our judgement, are at least as likely to be beneficiaries of AI as they are victims. They have not emerged as dominant winners in their chosen business domains by accident, but through the painstaking development of a valuable customer proposition that, in most cases, will be extremely hard to replicate or circumvent. There's a famous marketing line that cuts to the heart of a customer proposition: "When you buy a Cadillac, you're not buying transportation, you're buying status". Similarly, when customers buy software, or a software-enabled business, they're not buying code but the guarantee that their operations will work smoothly, often in time-critical, regulated industries where the tolerance for failure is low. We don't rule out changes to this part of your portfolio, but we are inclined to be patient and to think the path to disruption is far harder than the market currently implies. We intend to be flexible and responsive here, and to lean in harder behind those companies where we see evidence that they are becoming AI winners. Backing AI beneficiaries, without blindly chasing the theme The second feature has been a strength in AI-related hardware. International markets contain several companies with dominant positions in critical parts of the semiconductor value chain: from ASML and TSMC to Advantest in testing, Disco in wafer dicing, Lasertec in mask inspection and SK Hynix in memory. AI-driven demand has run into severely constrained supply, and when that happens, price is the clearing mechanism. This process has been most acute in memory, where both cyclical and structural factors are at play. The supply constraints are real and should lead to a lasting increase in the share of value captured by those few companies able to meet demand, supported by measures such as Long-Term Agreements with customers or co-funding of capex. In the early 2000s, ASML would lose money in a down cycle, but as its importance within the industry grew, it moved to a structurally stronger position, where it enjoyed a powerful combination of growth, higher and more stable profitability, and an improved equity valuation. We expect to see similar improvements at some of the other semiconductor equipment companies in your portfolio. Notwithstanding this, we have taken a significant amount of money out of your semiconductor holdings since late 2025, roughly 10 percent of your portfolio. This reflects a portfolio-level view about the appropriate size of any single, highly correlated bet, as well as our earlier observation that equity markets currently show a strong bias to momentum and narrative. We retain a significant overweight position in this part of the supply chain, reflecting its growth potential and business quality, which we view as far superior to areas such as datacentre energy or infrastructure, where there has also been AI-based excitement. And if the semiconductor industry rallies further, you should expect us to continue to reduce your overweight. Why patience matters Strange as it may seem to lump together the vast array of companies that don't fit into either category above, the recent period has been one in which all that has mattered is where companies stand on the AI question. Even the Iran conflict has mattered less in the short term than we might have expected. Underpinning this has been a wider reluctance to underwrite future growth if it requires upfront investment, unless the investment is explicitly labelled as AI. This is well illustrated by one of your long-standing holdings, MercadoLibre. They announced results in May that show the company growing at 46 percent year-on-year, the fastest rate since 2022. They see a "once-in-a-generation opportunity to transform how hundreds of millions of Latin Americans shop, pay and access financial services", and are rightly investing to deliver on that potential. Yet on the day the company announced this investment, its shares fell 13 percent. The message that it sends to ambitious growth companies is profoundly unhelpful. Writing to assure the management team, as we did, that they are doing precisely the right thing is a helpful gesture which they appreciated, but this small example shows the dangers of the short-termism currently rife in equity markets. While intensely frustrating in the near-term, this presents opportunities for the patient investor. Our response Patience should not be confused with passivity. We remain ambitious in our search for great growth companies, and we believe the opportunity set is widening. Since early 2024, this ambition has been applied to a broader range of growth businesses, and we have accelerated this process over the last few months. We felt the portfolio was still too narrow in its expression of growth, and that parts of our investable universe offered opportunities that would add something valuable to the portfolio. Our process has evolved to place greater weight on holdings that improve the portfolio's overall characteristics, alongside our longstanding emphasis on Growth and Quality. This has led us to increase your banking exposure for the first time since early 2020 and to take holdings in a pharma company, Roche, and an oil major, TotalEnergies. In selecting these companies, we continue to apply the same rigorous analytical process we use when researching any business, though the points of emphasis differ. In the case of Roche and Total, for example, both of which we know well from prior experience and colleagues on our European equities team, organisational culture is a defining strength. Total has had three CEOs in 35 years, which has given it strategic continuity that stands in stark contrast to the strategic flip-flopping and operational mistakes that have bedevilled some of its peers. Roche still has the guiding hand of the founding Hoffman-Oeri families behind it, which has been critical to the steady rebuilding of its pipeline after the patent expiries of a decade ago. A rebuilding that has eschewed large deals and focused on the harder but valuable task of differentiated science. The right culture matters for any business, most obviously perhaps for those driving rapid change and scaling fast - Anthropic and OpenAI are two high-profile examples that are currently taking contrasting paths. But it is also critical, as we know from our own firm, for long-duration organisations where what matters is the ability to stay the course, and to do so while evolving appropriately to fit a changing environment. Roche and TotalEnergies are paradigms of far-sighted companies operating in industries with decades-long investment cycles. In adding these stocks to your portfolio, we have continually challenged ourselves about the degree of change we are making. Any investor going through a challenging performance cycle must ask themselves at what point does conviction become stubbornness, or - the reverse - does adaptation become style drift? The answer to this question has to be rooted in client expectations: Is what we are doing aligned with how clients expect us to manage this portion of their portfolios? The delivered performance outputs, as we described above, clearly haven't been. But we believe the inputs to generate future returns that meet clients' expectations are firmly in place. And to return to the points above, stocks like Roche, as well as the likes of Sika and Unicharm, which we have also bought in the last quarter, are long-duration growth companies whose merits are being ignored because of near-term trading challenges that obscure their long-term structural growth potential and which the market is taking as reason to ignore them. We looked at Sika in 2017 and 2022 and chose not to buy it on both occasions. At the time we took a holding, the shares had fallen by over 50 percent from their peak two years earlier, while its long-term earnings power is unimpaired. As we have added a broader range of growth companies, the portfolio's risk characteristics, as measured by traditional metrics, have decreased. In thinking about portfolio risk, there are many useful lenses; none are perfect. What matters is that we understand a model's limitations and use them appropriately to ensure we remain ambitious while maintaining a diverse range of growth drivers. The future In his 1945 book, The Use of Knowledge in Society , Friedrich Hayek wrote that "economic problems arise always and only in consequence of change". We are in a period of profound change on multiple dimensions, and we should expect economic problems to arise from them. To take just one example, it is deeply unclear how knowledge work will change in an AI world. But change doesn't just cause problems; it creates opportunities. And change is often driven by companies innovating, discovering technologies and applying them to new and existing problems and by doing so building new and valuable businesses. As we move forward into this changing world and investment landscape, we at Baillie Gifford need to remain, as we often talk about, curious, patient and brave. Curious in exploring where this change will take us, both the first- and second-order effects. Patient in allowing structural trends to play out, as they often do, over many years. And brave in backing companies to take the hard, risky path of reinvesting in prospective growth rather than the easy option of returning money to shareholders. At a time when the active investment profession is under pressure, we firmly believe our strengths as a firm are more distinctive and valuable than ever. Our portfolios are ambitious and risk-seeking, while spreading their exposure across a wider range of high-quality growth companies. The International markets contain a range of exciting companies that are driving change, benefiting from it, or continuing to plough their own furrow, relatively unaffected by it. We cast our net widely, research deeply, and believe your portfolio of growth companies is well placed to deliver good investment returns over the coming years. We remain deeply appreciative of your support and look forward to discussing this note with you. International Growth Annual past performance to 30 June each year (%)

2022 2023 2024 2025 2026

International Growth Composite (gross) -45.0 16.3 6.1 20.0 4.0

International Growth Composite (net) -45.3 15.6 5.5 19.3 3.4

MSCI ACWI ex US Index -19.0 13.3 12.2 18.4 28.3

Annualised returns to 30 June 2026 (%)

1 year 5 years 10 years

International Growth Composite (gross) 4.0 -3.3 9.9

International Growth Composite (net)

3.4

-3.8 9.3

MSCI ACWI ex US Index* 28.3 9.3 10.5

*MSCI EAFE Index prior to 30 September 2018 Source: Revolution, MSCI. US dollars. Net returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised. Past performance is not a guide to future returns. Legal notice: 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. Risk factors This communication was produced and approved in July 2026 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking. The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions. This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, but is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned. All information is sourced from Baillie Gifford & Co and is current unless otherwise stated. The images used in this communication are for illustrative purposes only. Important Information Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs. Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK. Persons resident or domiciled outside the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances. Financial Intermediaries This communication is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford. 203801 10064671 Related insights International viewpoints: energy transition The energy transition is real, but demand is rewriting the investment debate. July 2026 International viewpoints | 4 minutes Stock story: Sea Limited Amy Leishman examines Sea's role in Southeast Asia's changing digital economy. June 2026 Video | 4 minutes International viewpoints: danger of easy narratives As AI reshapes music, Spotify's advantage may lie less in software alone and more in the data and relationships around it. June

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