Baillie Gifford Global Alpha

June 2026

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Another quarter, another double-digit return in US dollar terms from the Global Alpha portfolio. The portfolio has returned almost 20 percent since the start of 2025. In both periods, those outcomes are well behind the returns that the MSCI ACWI index has provided. All the while, the Global Alpha portfolio has been underpinned by strong sales growth, earnings growth and returns. Those features have gone relatively unrewarded against a market backdrop that seems interested in a rampant buildout of AI, and that theme alone. The resulting mismatch between the portfolio's growth and relative performance means that Global Alpha's valuation premium versus the market has evaporated. This is unprecedented territory for the strategy, which is now available on a discount to market on some valuation measures, and does not reflect the quality of the businesses we own. While we must recognise evolving stock market dynamics, the importance of fundamentals in driving long-term share price returns hasn't changed. We remain convinced that breadth, resilience and growth will deliver outperformance over the long run and have positioned the portfolio accordingly.

AI and the rest Index returns have been driven by a boom in the share prices of AI-related hardware businesses, particularly those directly involved in the production of the logic and memory chips needed to deliver the intelligence revolution. Growth expectations for those companies have leapt up over the past year, while the winners of the information revolution - primarily software companies - have sold off amidst concerns that they might all be replaced by what comes after the AI buildout. These feel like unprecedented times, but let's not kid ourselves. Change is a constant, in equity markets and the world around us. The forces driving market returns are part of a pattern that we've seen many times before. When transformative technology moves from concept to reality, the first thing you need is the foundation on which it will operate. The companies that do the building become very important for a spell. Later, the companies that use the technology best become more important. The current tech giants have choices to make while this happens. Do they stay on their old foundations, or acknowledge that it might be time to make a move? The colossal capital spending commitments of several of those businesses indicate their willingness to adapt. At the same time, AI being the defining feature of the next decade of investing does not make it the only one. Great growth businesses will be built on expanding markets. Most of the next billion global middle-class people will come from Emerging Markets, and local champions may prosper over Western imports this time. Better business models and management teams will consolidate and improve otherwise dull industries. See QXO's ambitions in US building supplies, or Linde's speciality industrial gases. New formats will keep delighting customers. Take Games Workshop's cult following of its figurine-based wargames, or the colourful world of the tens of thousands of drinks you can order at a Dutch Bros coffee stop. We have always looked beyond the largest market constituents and the flavour of the month to find the best growth businesses of tomorrow. This differentiated thinking is most important when it is least fashionable.

Performance Given the mono-thematic market context, it will come as little surprise that our choices in the semiconductor and semiconductor equipment space dominated performance during the quarter. The largest contributors and detractors were all chipmakers. Memory chip producers were the most prominent, as share prices for the major producers continued their astonishing rise. There is growing confidence that demand will exceed supply for several years and that memory chip pricing will remain high. Significant production capacity won't come online for a year or two. Even then, it may remain well short of demand. We own one of the major producers, Samsung Electronics, which was a top contributor to performance. Not owning the two other major players, Micron and SK Hynix, detracted from relative performance. We added SK Hynix to the portfolio late in the quarter, but too late for the holding to have much influence on this quarter's returns. While we buy into the demand arguments for memory, we're mindful that pricing is still likely to be cyclical on a longer view. The c. 3 percent of the portfolio we have allocated directly to the memory chipmakers reflects that nuance. Other non-holdings in the space were amongst the largest detractors. Intel and AMD, both US chipmakers, saw their share prices leap amid market excitement. Both are catering to excess demand that the market leaders can't meet. We're still far more confident in the long-term prospects of companies that clearly dominate their markets through a combination of scale and innovation. Together, NVIDIA and TSMC make up more than 10 percent of the portfolio. Their share prices have not surged to the same degree this year, but they are central to the AI revolution. TSMC's foundries sit at the heart of global chip production, and NVIDIA shows no signs of giving up its lead on GPU performance. Overall, our bias towards companies where we have conviction in the durability of their competitive position has been a cost during the quarter, despite meaningful exposure to the AI buildout. Around a third of the portfolio is invested in companies that are participating directly in the expansion. The more marginal players have delivered the better returns in recent times, but we don't think they have the best prospects over the next several years.

Stepping back So what should the adaptable growth investor do against this backdrop? We think the answer is obvious. We should seek significant exposure to the most important growth trends, while maintaining the breadth needed to deliver growth across many versions of the future. Here are the three key components of our approach. 1. Know thy market The complex system of markets is forever changing, its character altered by the behaviours of those driving trading. At the stock level, we need to ensure that our views of long-term growth potential remain differentiated and likely to generate excess return. More subtly, we need to understand how bumpy the ride to realising those excess returns is likely to be. The prominence of passive investing and the growing influence of thematic hedge funds, retail trading and trend following algorithms mean that, on most trading days, activity is driven by participants operating either mechanically or on much shorter time horizons than yours. The proliferation of ETFs in the US, where over $13 trillion is now housed, is an interesting case in point. There are now more ETFs listed in the US than there are listed companies. This increases the mispricing opportunities for long-term investors, while raising the chance that those investors will be further out of favour, for longer, when price momentum persists in parts of the stock market. You can read more about this paradox in Global Alpha's latest Research Agenda article . We can take advantage of excessive price movement at the stock level. When a great growth company is on sale, then we need to be nimble enough to react. At the portfolio level, it raises the requirements on overall positioning. We want to swing for the fences on individual stocks, but we can only do that if our aggregate positioning is well spread across growth drivers and thematic factors. We have deliberately built up prior areas of underexposure over the past several months, further broadening our range of growth drivers. 2. Find sustainable value in AI The AI buildout has started with data centres, but it won't stop there. We can already see how constraints are driving innovation. Cloudflare's network, which operates in the periphery of the cloud, is one example. SpaceX's ambition for orbital compute is another. More straightforwardly, AI processing power may shift onto our devices. And that's before we even begin to think about the local requirements of physical AI in vehicles and robots. Our initial expectations will inevitably look quaint in retrospect, and there will be huge developments that will require us to adapt our thinking. In such a rapidly developing network, it's tempting to abandon the long-term view and instead react to where demand is going now. That's how it looks in stock markets. Pinch-points reveal themselves, earnings surge, and share prices react. The spotlight shifts from one category to the next. First processing chips, then memory, next power. We're charting a different path. We think that the major nodes in the buildout offer the most compelling value. This is supported by both their near-term growth rates and their relevance to the system, no matter how it develops. Holding these durable positions at scale should deliver long-term returns to the portfolio. TSMC and NVIDIA are the clearest examples. The hyperscalers deserve our attention too, but our enthusiasm there has tilted more clearly towards Amazon and Alphabet, where development of their own chips is beginning to establish a cost advantage. Their embedded positions justify their place at the core of our AI allocation. These four alone represent over half of our AI supply chain exposure. Around the best of the major players, we go looking for those in control of underappreciated niches in the supply chain. This is not about finding the marginal business that can earn a quick buck. This is about finding businesses with clear, sustainable leads in areas of growing demand. We added two such businesses this quarter: the hybrid bonding machine maker Besi and the inspection system maker Lasertec. Both have globally dominant market shares in highly specialised industries. With manufacturing capacity buildout yet to reach pace, both should see materially higher demand for several years. In Besi's case, the idea that we'll gain more from stacking chips than cramming more transistors onto a single layer is not an insight. Our view that hybrid bonding will be required at scale across memory and logic chips is, and it looks undervalued to us. Lasertec's equipment finds microscopic flaws in the templates used to print the most intricate chip circuits. It has a virtual monopoly, and the years it has spent customising machines for each major manufacturer give it a starting position that no one else is likely to replicate. Our search captures the wider support network, too. Electricity supply, efficiency and cooling are critical to data centres. On the broadest view, the copper supply-demand imbalance looks highly attractive. Our work at the start of the year brought this into the portfolio through Freeport-McMoRan and Credicorp. At much higher resolution, the marine engine provider Wärtsilä is plugging power and resilience gaps that the US grid may never fully cover. We added Wärtsilä to the portfolio this quarter. We end the quarter with a high-quality blend of companies spread through the AI value chain. We expect and will adapt to meaningful shifts in the system, always with a firm focus on the long-term earnings potential of businesses with sustainable advantages. 3. Maintain breadth There has been little recent reward for owning a broad set of growth businesses. The pedestrian returns from "everything else" have placed some wonderful growth businesses on sale. We are adding the best of these to the portfolio as opportunities appear. Several software businesses have fallen into this "out of favour" grouping on poorly defined AI concerns. We added to existing holdings last quarter that we felt had been unjustly caught up in a market panic. This quarter, we've taken a new holding on the same basis. The rapidly growing Axon Enterprise is the company behind TASERs, the non-lethal weapons used by law enforcement agencies in over 80 countries. It is becoming the operating layer for public safety by stitching together its devices with a connected digital record via its evidence.com platform. The shares have sold off on concerns that AI agents will replace its software. This materially misrepresents the growth case, which is founded on the value of the trusted and verified data that Axon's hardware collects and its software organises. The highly sensitive nature of the data makes competing with Axon's trusted platform difficult and an unlikely candidate for vibe-coded replacement. We have taken the opportunity to establish a holding. At the steadier end of the range sits the exceptionally run Linde. This industrial gas producer systematically out-earns its competition. Its methodical approach to growth through acquisitions and client partnerships has enabled it to generate sustained returns from a seemingly cyclical and commoditised industry. There is plenty of growth available in this fragmented industry. Linde's modest valuation premium does not adequately reflect the compounding opportunity, which could persist for over a decade. The two examples above illustrate the ground that the Global Alpha team and its network of trusted advisors cover in our search for growth in all its forms. We expect the value of this breadth to be recognised when the stock market's perspective expands.

Outlook We are acutely aware that we have not delivered for you in recent years. The companies in the Global Alpha portfolio have grown consistently faster than the stock market for the past few years. At the same time, we have failed to keep up with index returns, which rising valuations have propped up to a far greater degree. We've now reached historical lows on valuation compared to the wider index. The portfolio trades at a discount on some price to cashflow metrics, which is unprecedented territory for us. Of course, the relative valuation reflects expectations of the future growth prospects of our holdings. We are well placed on this measure. The consensus figures above show high earnings expectations for the index and higher for our portfolio of holdings. Even this positive skew underestimates the portfolio's growth potential - we think the businesses we own will do much better. If we are broadly right on growth (as we have been even through this poor spell) then the rewards for patience should be substantial from here. The final kicker comes from the breadth and resilience that the portfolio delivers. Our companies operate from stronger financial positions than the index, as the central table illustrates. If the currently high market expectations turn out to be fragile, then we'd expect our holdings to weather most storms in good shape. We've worked hard to ensure the portfolio is built on a wide set of growth drivers. We evidence that through the variety of names we have introduced to the portfolio over the past year, where valuations are out of step with business quality. You can trust that we will remain ambitious and long-term as we adapt the portfolio to the realities of stock markets. We will be relentlessly outward-looking as we seek out the best opportunities to own great growth businesses. Your patience with us as we rebuild the strategy's returns is hugely important and much appreciated. Global Alpha Annual past performance to 30 June each year (%)

2022 2023 2024 2025 2026

Global Alpha Composite (gross) -32.4 17.9 13.7 15.7 8.5

Global Alpha Composite (net) -32.8 17.1 13.0 15.0 7.8

MSCI ACWI Index -15.4 17.1 19.9 16.7 24.2

Annualised returns to 30 June 2026 (%)

1 year 5 years 10 years

Global Alpha Composite (gross) 8.5 2.6 11.9

Global Alpha Composite (net) 7.8 2.0 11.2

MSCI ACWI Index 24.2 11.5 13.3

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.

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