



## IMAP Independent Thought Podcast

### Episode 43: The Elite Few behind Global Growth

Join our host **Emily Barlow (Perpetual Private)** and **Diana Phillips (Baillie Gifford)** as they discuss;

- Identifying rare companies capable of delivering outsized long-term growth
- Whether the recent broadening of market leadership beyond mega-caps is changing opportunity sets
- The gap between AI's productivity promise and its real-world impact on businesses
- The recent software sell-off and debate around AI disrupting traditional SaaS models
- How geopolitical tensions and market rotations may shape long-term global equity opportunities

#### IMAP Disclaimer

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#### Emily Barlow - Perpetual Private 0:15

Welcome back to the IMAP Independent Thought Podcast. I'm Emily Barlow from Perpetual Private, and today we're diving into the long-term global growth landscape with Bailey Gifford, a manager known for backing a select group of businesses capable of growing five fold or more.

They run a concentrated low turnover portfolio with an average holding period of around eight years, a rare discipline in today's fast-moving markets. I'm thrilled to be joined by investment specialist Diana Phillip.

Diana, thanks for being here. Diana, before we get into market dynamics and AI, I'd love to start with the foundations. Bailey Gifford's long-term global growth strategy is built around the idea that a very small number of outliers drive the majority of global equity returns.

To set the scene for our listeners, can you walk us through your process for identifying those companies?

### **Diana Phillip - Baillie Gifford 1:08**

Yes, thank you. We are now in our third decade of running long-term global growth. For us, we are looking for extreme returns. We are looking to capture the outliers and hold them at scale over a long period of time.

Our mission is to step away from the market's short-termism, and to think much more about the transformational returns that can play out over the next five, ten, or longer years. To do this, we have to be totally unconstrained or unshackled by the benchmark. But we also need to think in an unconstrained way. Embracing the extreme requires totally unconstrained thinking.

It also requires optimism. And within the team, for us to be able to identify these outliers, everything that we do throughout our process is absolutely designed to optimize for that optimism when investing.

### **Emily Barlow - Perpetual Private 2:19**

Great, thanks, Diana. And that gives us a good sense of the how. I'd like to connect that with what we've been seeing in markets more recently. And for a number of years, those mega cap stocks have really dominated those global equity returns.

But over the past 12 months, market leadership has broadened out with more companies and more sectors contributing to performance. Does this broadening influence how you're thinking about your portfolio?

### **Diana Phillip - Baillie Gifford 2:46**

Yes, and may be just for context, at one point throughout Baillie Gifford Long Term Global Growth's (LTGG) history, we have held every single one of the Magnificent Seven companies, and today we still hold two, being Amazon and Nvidia. Since the chat GPT moment in at the end of 2022, we've recycled out about 17% of the portfolio by weight from our Magnificent 7 holdings into a range of new ideas and also existing holdings that we think have been pretty overlooked by the market. I think that this is a really interesting point about LTGG, that finding these outliers early and holding them in size is absolutely critical for our out-performance. What's been particularly interesting, if we observe the last year, is that we've really been witnessing this changing of the guard with several of our newer holdings beginning to comfortably outperform every one of the magnificent seven companies from both a growth and a share price perspective. And they are a really diverse range of businesses from early AI application companies like AppLovin or Horizon Robotics in autonomous driving.

### **Emily Barlow - Perpetual Private 4:11**

Great. So if we could build on that a little bit, and I know that tech is a core part of your long-term global growth portfolio, and a lot of the narrative that we've heard around AI does assume a step change in productivity, but we haven't necessarily seen that play out yet.

So I'm interested in how you're thinking about that gap between the promise of AI-driven productivity and the reality of its emergence.

And linking to that, how confident are you that the winners of the next decade are already in your portfolio rather than incumbents of the last cycle?

### **Diana Phillip - Baillie Gifford 4:47**

I think that one of the key aspects of any business in today's fast-moving environment is going to be an ability to be adaptable. As change is accelerating, we think that businesses that have that capacity to adapt will be the ones that will be able to not just survive, but thrive in this environment.

And actually, we are beginning to see businesses in our portfolio who are either embracing artificial intelligence to drive efficiencies. I would suggest the likes of Spotify, the music platform business, is a very good example there. Or businesses who are using it to improve the product that they are offering their customers. And Reddit, the social media platform, is an excellent example of a business that is really harnessing artificial intelligence to be able to improve that product for its end customers.

**Emily Barlow - Perpetual Private 5:56**

So, another area that's generated a lot of discussion recently is that software sell-off and the so-called SaaS Pocalypse. The idea that AI agents could undermine or even collapse traditional SaaS business models.

We've subsequently seen some dramatic moves in the listed software space, and industry voices appear to be split. Some arguing that the market has overreacted, and others arguing that the risks are more structural. What is your perspective on this?

**Diana Phillip - Baillie Gifford 6:25**

Yes. For us, we are always focused on company fundamentals. These really matter to returns over the long term, but they don't matter so much in the short term. And the recent sell-off appears increasingly indiscriminate in the software names.

But for us, the nuances absolutely matter. The companies that we invest in have very different business models, competitive advantages, and long-term growth prospects. And stock selection is absolutely paramount. Some will be losers, but there will also be winners in this environment with outsized payoffs. And this can take years to play out.

Now, as long-term investors, we always continue to assess the fundamentals of the companies in which we invest. And where necessary, we will re calibrate our probability-adjusted upside theses. Last year we had already raised serious questions in our research about the prospects for the likes of Workday and Datadog, for whom both of those we'd felt that the probability of them becoming AI victims had heightened together with some intensifying competition. And so we took the decision to move out of those names.

But elsewhere, this environment is actually creating tremendous opportunity for us. There are a number of companies in the portfolio today which are software-enabled hardware platforms that have been really caught up in this so-called SaaS Apocalypse. And we've seen this affect the likes of Axon, which is the Taser Company, or Samsara, which is digitizing physical assets.

But actually, these businesses we think have very defensible advantages. And these are really rooted in the proprietary data that is generated by their large installed bases of sensors or cameras, in the case of Axon with their body-worn cameras, which we think is actually going to be incredibly hard for AI to be able to replicate. So we've been using this recent dislocation that we've seen in the market to be able to build and add to these positions further in the portfolio.

**Emily Barlow - Perpetual Private 9:05**

Okay, great. And if we take just a slightly different turn, obviously, you know, we've been focused on growth, but we have started to see a rotation back into value over the past 12 months.

Is this something that you look at and consider? And is it something that you think will continue, or are we more likely to see that leadership swing back to growth?

**Diana Phillip - Baillie Gifford 9:27**

So in the last three months since October, we have seen the sharpest rotation into value that we have seen in 25 years. Looking at the valuations of tech last week, they were cheaper than staples, and tech has seen the fastest derating in 20 years. We feel that some of these moves have been very indiscriminate and are not assessing appropriately the very strong fundamentals of what are some exceptional businesses.

**Diana Phillip - Baillie Gifford 10:01**

And when I take a step back, you know, we very rarely like to think of the market in terms of labels of value versus growth. For us, what we are looking for are strong businesses with very strong fundamentals that have that capability to be able to deliver transformational returns for our clients over the long term.

For us, we are seeing tremendous opportunity in this environment today, and we're really, really, really encouraged by the very strong fundamentals of the portfolio today.

And we've investing in businesses which are growing their revenues and their earnings at a rate that is materially faster than that of the index. There are also businesses that are reinvesting in their companies at a rate that is double that of the benchmark. So for us, we try to shy away from using the term growth for value.

We're looking at the opportunity set from a company-by-company basis. And when we look at the companies in the portfolio today, we believe that we're investing in some of the most adaptable businesses with incredibly strong fundamentals that are really poised to be able to capture some very compelling performance for our clients over the long term.

**Emily Barlow - Perpetual Private 11:22**

So if we take another turn, and I appreciate Bailey Gifford is very much a long-term bottom-up manager, but it is impossible to ignore some of the geopolitical events that are happening at the moment. So I'd like to briefly touch on the conflict in the Middle East.

Now, given the region's importance in energy markets and potential flow-through effects on things like semiconductors, logistics, and global consumer sentiment, do you see any indirect or direct implications for the names that you hold?

**Diana Phillip - Baillie Gifford 11:53**

Yes, so when we look at the portfolio, from a fundamental standpoint, we have no direct investments today, domiciled in the Middle East. There is a very de minimis (minor) revenue exposure that we have, and that's primarily indirect and through consumer activity for platforms like Amazon and Netflix and a small number of the luxury holdings that we have.

What I would say is that while the direct portfolio exposure is limited, we are certainly alive to some of the potential second-order effects that could potentially come from a more prolonged conflict in this region. And that would be the likes of travel obstruction or supply chain delays and shifts in corporate and consumer confidence.

More conflict is, of course, not desirable and could weigh on global growth if it prove to be prolonged and it spreads. But we in this environment would really caution against drawing any firm conclusions in the short term.

What we are comfortable with and what gives us a great degree of reassurance is that the companies that are in the portfolio today are very financially resilient, they're highly adaptable, and they really are positioned to be able to compound value through a range of different macro environments. And then finally, the long-term growth prospects remain meaningfully above average for the portfolio.

**Emily Barlow - Perpetual Private 13:37**

Before we wrap up, I'd love your thoughts on the outlook.

When you look across the next five to ten years, where do you see the greatest opportunities and the greatest risks for global equity investors?

And what do you think advisors should be keeping front of mind when thinking about allocating to global growth?

**Diana Phillip - Baillie Gifford 13:56**

I think that as a long-term global growth investment manager, today's environment is probably as exciting as it ever has been for us. Change has always been a constant. Ever since we started Bailey Gifford in 1908, change has been something that we've had to grapple with. But today, change is certainly accelerating.

And for us as transformative growth managers, we think that we are really well positioned to be able to capitalize in this environment because transformational growth businesses are really the companies that can benefit from this dramatic change rather than those that benefit from the status quo. We are looking to identify the disruptors.

These are the businesses that will be able to drive or ride these exponential adoption curves. And often these are the businesses that are associated with new technologies. So when we look forward over the course of the next five to ten years, this environment fills us with tremendous amounts of optimism and excitement.

**Emily Barlow - Perpetual Private 15:14**

So, what is it that's keeping you up at night then, given that there's so much excitement?

Is there anything that you're concerned about if it were to play out?

**Diana Phillip - Baillie Gifford 15:23**

The biggest concern for us in long-term global growth is missed growth. We have to make sure that we are capturing and identifying the businesses, the few companies that really matter and drive long-term returns in equity markets.

The analysis shows over the last hundred years in US equity markets, or the last 30 years in global equity markets, that it is only a few companies that matter. We must set ourselves up in a way that gives us the best opportunity to capture those outliers on them at scale and over long periods of time. So what keeps us up at night is making sure that we are best positioned to be able to identify those businesses and not miss out on that growth.

## **Emily Barlow - Perpetual Private 16:16**

Diana, thank you. It's been fascinating to hear how you're thinking about constructing long-term growth portfolios in the current environment, which, as we've discussed, narratives can change and change is only accelerating more quickly.

And to our listeners, if you have enjoyed today's episode, please do share it with your colleagues or networks. We look forward to having you join us next time as we continue exploring the themes shaping investment outcomes.

Thank you.

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