

Baillie Gifford™

International Alpha

Philosophy and Process



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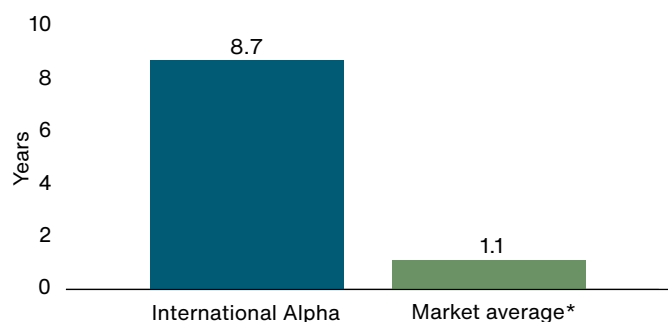
Philosophy

A simple, enduring philosophy built upon three core beliefs

Long term

We believe that investing for the long term is our greatest edge. Our research looks five-to-ten years ahead, and our average holding period is many times that of the market.

We hold stocks on average 8x longer than the market

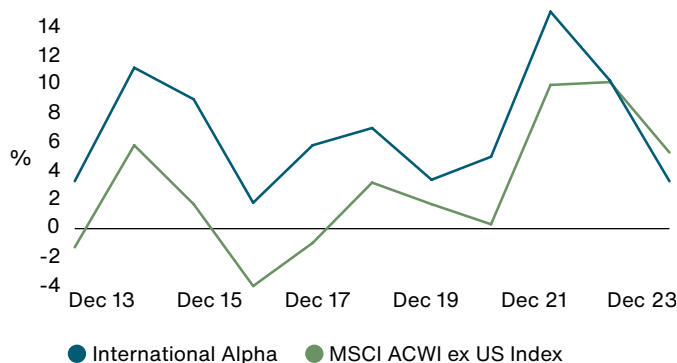


Source: Baillie Gifford & Co. As at December 31, 2023. Based on 10 year turnover of a representative portfolio. *Source: World Bank. Time horizons based on Baillie Gifford estimates using World Bank data of world stock turnover 2010–2020.

Growth

We believe great growth companies are consistently underappreciated by equity markets. We focus on identifying businesses that can sustainably grow profits and cashflows faster than the market over meaningful time frames.

Earnings growth (p.a.)

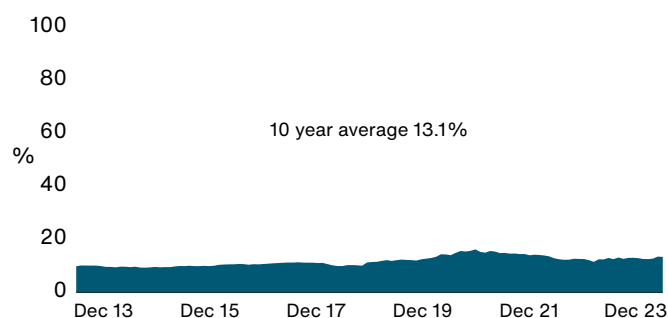


Source: FactSet, Baillie Gifford & Co, MSCI. US dollars. Based on 5 years historic earnings growth of a representative portfolio. Portfolio and index figures are calculated excluding negative earnings.

Stock driven

We believe to outperform you have to be different. We choose our investments according to the strength of the opportunity, irrespective of domicile or weighting in any index. This leads to a highly differentiated portfolio with a consistently low overlap versus the benchmark.

Low overlap with the index



Source: Baillie Gifford & Co and MSCI. Based on representative portfolio.

Why invest in growth?

Share prices follow fundamentals over meaningful time periods.

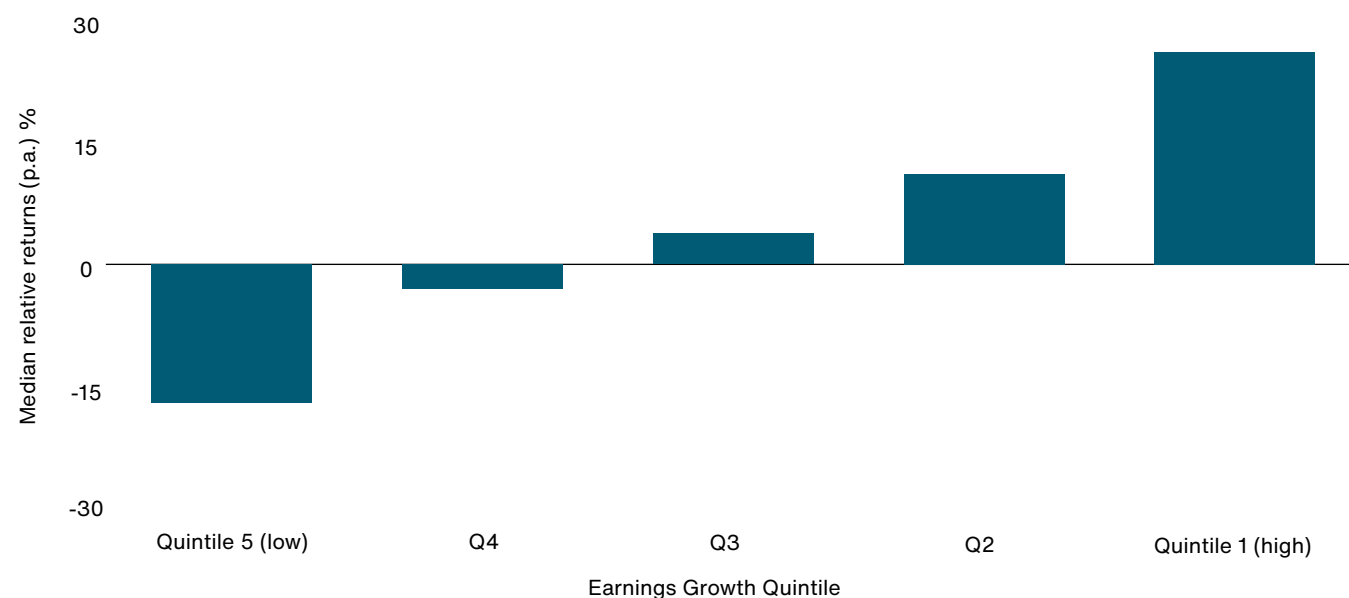
We are stock pickers, looking for businesses that are able to deliver earnings growth over extended periods. More than 90% of the total returns from our portfolio over rolling five year periods since inception have come from earnings growth, rather than multiple expansion, and our analysis shows a strong, direct correlation between earnings growth and relative returns throughout equity markets.

The chart below shows the dollar denominated earnings profile of the international equity universe since 1990. It shows that stocks with the highest earnings growth have delivered the highest share price returns relative to the benchmark.

This relationship has been consistent across a variety of market conditions and we believe that companies with above average earnings growth will continue to be rewarded.

Delivered median relative returns by earnings growth quintile

Rolling five year horizons (1999 - 2023)

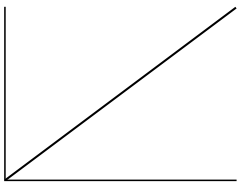


Source: Factset, MSCI, US dollar. Data as at December 31, 2023.
The universe consists of all stocks listed in the MSCI ACWI ex US at each starting point.

Not all growth companies are the same

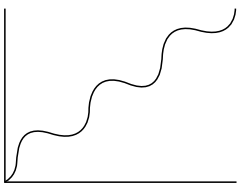
Public equity markets are increasingly biased towards the short term, providing clear and persistent opportunities for long-term active managers to add value. To illustrate this, we have characterised four broad types of growth company, each of which presents long-term investors with an opportunity due to persistent market inefficiencies we can exploit.

Quality compounders



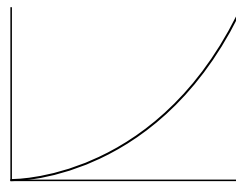
These are businesses with particularly durable competitive advantages that reinvest their cash flows to reinforce their strengths and extend their market reach. They tend to grow steadily over long time-frames. The market underestimates the power of steady compounding.

Through-cycle winners



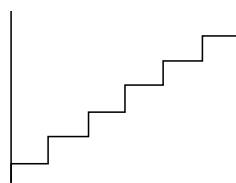
These companies take share through the cycle as a result of an enduring advantage, emerging stronger from downturns that hurt their peers more. The market tends to speculate on the cycle, trying to time the ups and downs. We believe the better strategy is to buy and hold the winners.

Rapid growers



Rapid growth companies expand quickly and are often capital light, making the growth astonishingly valuable. The market finds these businesses with extreme outcomes hard to analyse or value, and tends to focus on what could go wrong, missing the long term value creation.

Capital allocators



Capital allocators grow through acquisition or lumpy investment in organic growth, with management teams who are willing to withstand short-term pain for long-term gain. The market finds it hard to value what it can't model, so consistently misprices the value of transformative capital allocation.

Process

A patient and repeatable process, providing the foundation for high conviction, bottom-up stock picking.

The International Alpha investment process aims to produce good long-term performance by combining the specialist knowledge of Baillie Gifford's investment teams with the ability to compare businesses globally.

The process is designed to identify businesses with large, durable growth opportunities and sustainable competitive advantages that are run by management teams we can trust to make the most of their potential.

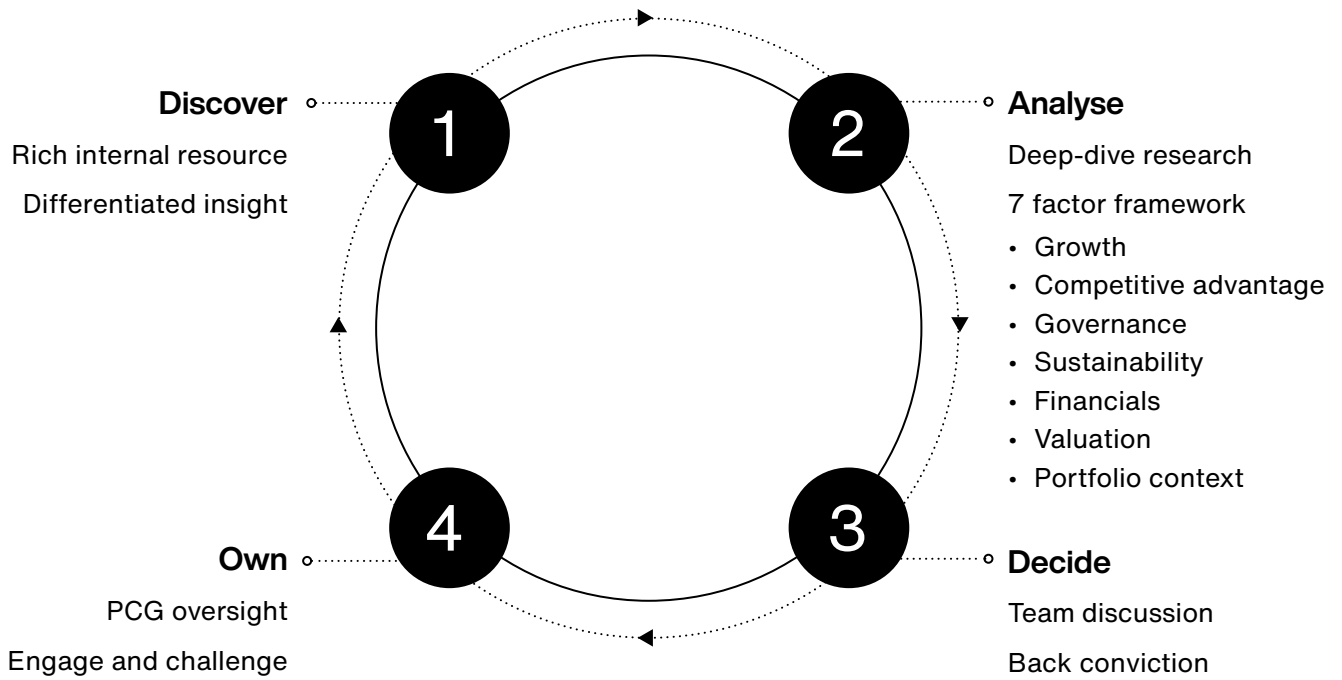
Our idea generation harnesses a vast array of diverse information sources. We cast the net widely in our search for new insights, not only meeting management and reading the standard discourse on companies, but also speaking with academics and industry experts, or commissioning specific pieces of investigative research. We take forward ideas by writing our own in-depth research pieces, examining all investments against a consistent framework to test the durability of the investment thesis.

After a piece of research is written, it is discussed and debated by the Portfolio Construction Group (PCG), bringing together different perspectives to develop, challenge and contextualise. A buy decision is made when an idea gains a sponsor and a seconder, avoiding 'groupthink' by enabling non-consensus decision-making and backing each others' judgement. It is this patient and repeatable investment process which is the foundation of our ability to be high-conviction, bottom-up stock pickers over long time frames.

The PCG meets regularly to discuss ideas and their level of conviction in existing holdings. Typically, individual stocks are discussed at weekly meetings while a quarterly meeting focuses on the portfolio as a whole, looking to identify themes and portfolio exposures which may be over or under-represented. Representatives from our ESG resource, Investment Risk, Research & Analytics Department and the Clients Department provide challenge to ensure client concerns and investment restrictions are integrated into the construction of the portfolio.

Our seven factor investment research framework





Risk management

Our approach to risk is pragmatic, built upon in-depth analysis, independent oversight and challenge.

The stock market is a complex adaptive system which is inherently unpredictable and frequently volatile. Trying to distil risk down to a single measure derived from historic correlations implies that stocks behave in a predictable manner in relation to the market. This is not the case.

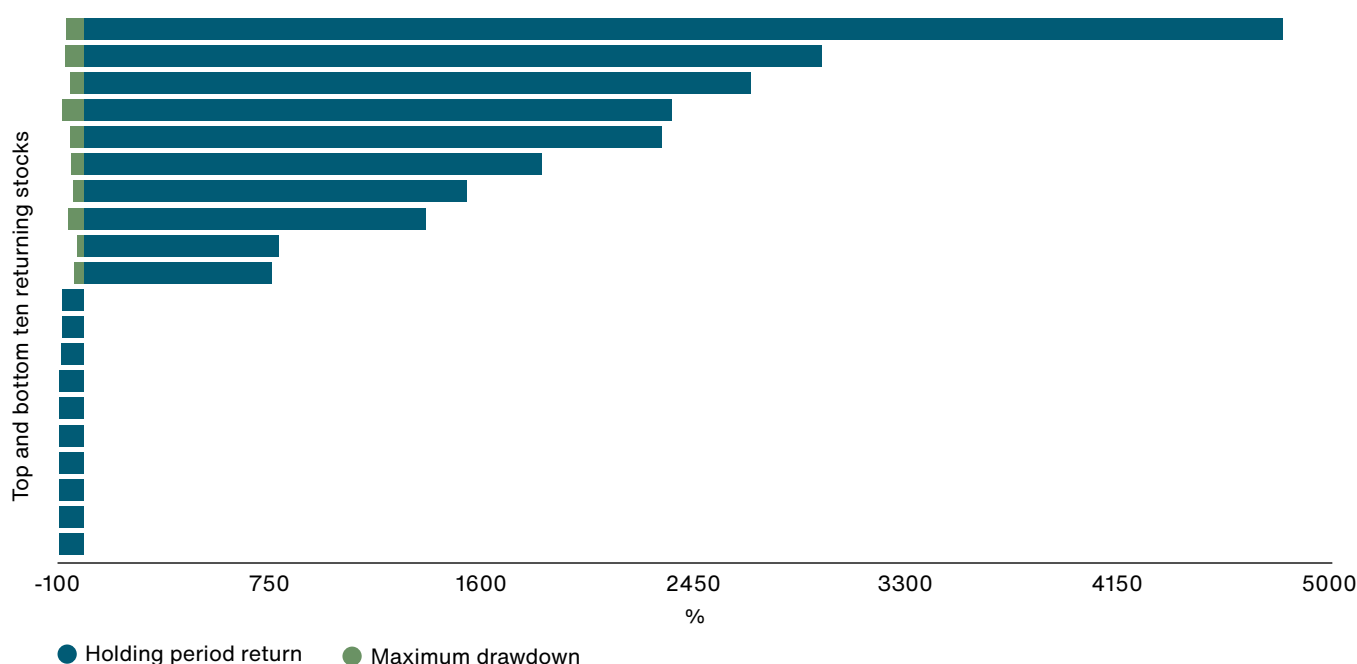
To ensure that clients are not exposed to unacceptable risks, our process incorporates the following checks and balances:

- A stable, experienced team, with a consistent philosophy, supported by a stable owner.
- Proprietary, in-depth, fundamental research assessed using a consistent framework.

- Internal guidelines that ensure appropriate levels of portfolio diversification.
- Baillie Gifford’s Investment Risk, Analytics & Research Department and Investment Risk Committees provide independent oversight and challenge.

Having a low overlap with the index and sticking to our long-term philosophy means that occasional volatility is inevitable. As the following chart shows, over long holding periods it is entirely normal for even the most successful of growth investments to experience setbacks. Such short-term share price falls can unquestionably be painful, though our willingness to tolerate occasional volatility rather than hide from it has added significant value for our clients over time.

Holding period return versus maximum share price fall for top and bottom ten holdings



Source: Revolution. Absolute returns of the International Alpha composite since inception June 28, 2002 to December 31, 2023. US dollar. Some stocks were only held for part of the period.

Competitive advantages

Long-term, bottom-up, growth style: we believe that investing for the long term is our greatest edge. Our research looks five to ten years ahead, and our average holding period is many times that of the market (8 years vs. 12 months). Our partnership structure is important in creating an environment supportive to investing for the long term.

We believe great growth companies are consistently underappreciated by equity markets. We focus on identifying businesses that can sustainably grow profits and cashflows faster than the market over meaningful time frames.

Stock-driven: we believe that to outperform, you have to be different. We choose our investments according to the strength of the opportunity, irrespective of domicile or weighting in any index. This leads to a highly differentiated portfolio.

Experienced team: stock picking for the strategy is the responsibility of the International Alpha PCG, a group of six experienced investors drawn from across our investment platform, including four partners of the firm. Three of the PCG sit on the International Alpha central research desk and three are embedded within specialist teams across the investment floor. The group, therefore, combines specialist knowledge with an ability to compare businesses globally.

People

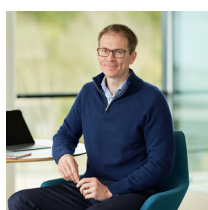
A group can make better decisions than an individual when it brings together diverse perspectives to meet a common goal. The PCG brings together six cognitively diverse individuals united by the same investment philosophy. Three members of the PCG, Jenny Davis, Tom Walsh and Stephen Vaughan, sit on the International Alpha central research desk. They are joined by Donald Farquharson, Roddy Snell, and Chris Davies, who sit in their home research teams specializing in Japan, Emerging Markets and European Equities, respectively.

The portfolio is assembled in a holistic manner, combining specialist knowledge with an ability to compare businesses globally. The PCG takes collective ownership and responsibility for the performance of the strategy. This is reinforced by an incentive structure that only rewards outperformance of the whole portfolio over a meaningful period (five-year rolling periods of relative performance).



Jenny Davis*
Investment Manager

Jenny is an investment manager in the International Alpha Team and has been a member of the Portfolio Construction Group since 2016. She joined Baillie Gifford in 2011 and became a partner of the firm in 2022. Jenny started her career at Neptune Investment Management. Jenny graduated MA in Music from the University of Oxford in 2008, and latterly undertook postgraduate studies in Psychotherapy at the University of Edinburgh.



Tom Walsh*
Investment Manager

Tom is an investment manager in the International Alpha Team and has been a member of the Portfolio Construction Group since 2018. He joined Baillie Gifford in 2009 and became a partner of the firm in 2022. Tom has experience on UK, European and global opportunities teams. Before joining Baillie Gifford, Tom worked at Fidelity International, Merrill Lynch and Deloitte & Touche. He graduated LLB (Hons) in Law & Economics from the University of Edinburgh in 1999 and is both CFA and ACA qualified.



Steve Vaughan
Investment Manager

Steve is an investment manager in the International Alpha Team and has been a member of the Portfolio Construction Group since 2022. He joined Baillie Gifford in 2012. Steve previously worked as an investment manager in the Smaller Companies Team. Prior to joining Baillie Gifford, Steve was an Officer in the British Army for nine years. He graduated BA (Hons) in Jurisprudence from the University of Oxford in 2001 and MA in International Relations from the University of Exeter in 2012. Steve is also a CFA Charterholder.

*Partner.



Roddy Snell*
Investment Manager

Roddy is an investment manager in the Emerging Markets Equity Team. He joined Baillie Gifford in 2006 and became a partner of the firm in 2023. He has managed the Baillie Gifford Pacific Fund since 2010 and Pacific Horizon Investment Trust since 2021 (having been deputy since 2013). Roddy has been a member of the International Alpha Portfolio Construction Group Since 2024. Prior to joining the Emerging Markets Equity Team in 2008, he also spent time in the UK and European equity teams. Roddy graduated BSc (Hons) in medical biology from the University of Edinburgh in 2006.



Donald Farquharson*
Investment Manager

Donald is head of the Japanese Equities Team, which he joined in 2008. He is currently the co-manager for the Japan Growth Strategy, which he has run since its inception, and has been a member of the International Alpha Portfolio Construction Group since 2014. Donald joined Baillie Gifford in 2008 and became a partner of the firm in 2017. Donald has over 35 years of investment experience, almost all dedicated to Japan having worked in Tokyo, London and now Edinburgh. Prior to Baillie Gifford, Donald spent 20 years working for Schroders as a Japanese specialist and latterly Head of the Pan Pacific Equity Team. Between 1991 and 1995, he headed Schroders' research team in Tokyo. He graduated with MA (Hons) in Arabic Studies from the University of St Andrews in 1987 and is a CFA Charterholder.



Chris Davies
Investment Manager

Chris is an investment manager in the European Equity Team and has been a member of the International Alpha Portfolio Construction Group since 2021. He joined Baillie Gifford in 2012. He graduated BA (Hons) in Music from the University of Oxford in 2009 and gained a MMus in Music Performance from the Royal Welsh School of Music and Drama in 2010, as well as an MSc in Music, Mind and Brain from Goldsmiths College in 2011.

*Partner.

Baillie Gifford

Clients

We are immensely proud of our supportive client base. Without them, our business could not exist.

Our primary goal is to build long-term relationships with aligned, like minded, clients. Our longest client relationship dates back to the early 1900s.

A core principle we have always upheld is prioritising our clients' interests above the firm's. In an industry that often puts financial gain over client outcomes, this focus is crucial. We aspire to be seen as more than merely the 'hired help', and aim to be recognised as a trusted, long-term partner, who can be relied on to give honest and objective advice at all times.

We are research-driven, patient and prepared to stand apart from the crowd. And because we're an independent partnership without outside shareholders, the long-term goals of our clients are genuinely our priority.

Partnership

Stability matters.

Since its inception in 1908, Baillie Gifford has proudly remained a private partnership. We have no intention of changing this. We have never had a merger or made an acquisition, nor do we seek to in the future. This is a rare level of stability in financial services.

All of our partners work within the firm which provides a unique level of alignment between them as owners, and our clients. This is a key differentiator in comparison to a lot of our peers.

Focus

We have a clear unity of purpose – excellent long-term investment returns and unparalleled client service. Our interests and long-term objectives are completely aligned with those of our clients.

We are not short-term speculators, rather we deploy client's capital to run truly active portfolios that give exposure to exciting and lasting growth companies. We would argue that it is visionary entrepreneurs and company leaders that generate long-term profits and share price increases, not stock markets or indices.

When active management is done well it can add material value over the long term. We need to be willing to take a differentiated view. This is not easy. It requires dedication, independent thought and a long-term perspective. Our whole firm is built around this, and we will always remain resolutely investment and client outcome driven in our outlook.

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