

**Baillie Gifford™**

# UK Equities

Philosophy and Process



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# Philosophy

We aim to generate positive, market-beating, long-term investment returns through investing in UK equities.

We believe there are some tremendously exciting UK businesses: many may not be household names, but typically they will be true world leaders in their fields with enviable competitive positions that rivals find hard to match. Our goal is to identify these companies and invest in them as stewards of our clients' capital for periods of five years and longer.

While we seek out domestic companies with a clear competitive edge, investing in the UK does not mean we are dependent on the success of the UK domestic economy. With around 80% of revenues generated by UK companies coming from overseas, we also aim to gain exposure to companies which can benefit from growing economies elsewhere in the world.

## The UK Equity Team runs two main specialist portfolios

### UK Equity Alpha

UK Alpha is a high conviction, concentrated portfolio of 30–50 companies. It is highly differentiated from the benchmark with a high active share.

30–50  
stocks

### UK Equity Core

UK Core invests in a range of 45–65 companies. This portfolio has a more constrained set of risk guidelines and as such has a lower performance target.

45–65  
stocks

## **Our investment philosophy**

We are unashamedly bottom-up investors. We take a very different view from the market as, in our opinion, differing substantially from consensus is a necessary prerequisite for adding value. We believe that as active managers we should hold meaningful investments in our best ideas regardless of the weightings of an index. This means our active shares are high: we take conviction positions and we run our winners.

We invest for the long term. We look to own companies, on our clients' behalf, for periods in excess of five years as reflected in our very low annual portfolio turnover of less than 20%.

We are growth investors. We believe that superior growth will lead to outperformance over the long term and the ability to be patient is key. We appreciate that growth can come in different guises – some companies will grow very rapidly, others will compound over time – our aim is to have a broad exposure to all.

## **Our UK Equity pooled funds' guidelines**

### **Net Zero Asset Managers initiative**

At the end of 2022, the UK Equity Alpha and UK Equity Core pooled funds committed to support investing aligned with net zero emissions by 2050 or sooner, and the funds are now being managed in line with this guideline.

The purpose of aligning the portfolios with net zero guidelines is to provide additional insight into the positioning of the holdings, underpin our interactions with companies and push for better information to support our investment decisions as we pursue the portfolio's objective.

### **United Nations Global Compact**

As of 31 March 2023, the UK Equity Alpha and UK Equity Core pooled funds aligned to complying with the United Nations Global Compact (UNGC). Going forward, if a holding is identified as having breached the principles based on our judgement, supported by our internal research alongside data feeds from third-party sources, a formal engagement and monitoring plan will be implemented. We would expect to see material improvement within three years of the commencement of our engagement. Should a company fail to demonstrate progress, we would divest.

# Process

Our process has been tried and tested over many years. Our investable universe comprises around 500 companies and we prioritise those we believe to be more in line with our philosophy to create the best portfolio ideas.

## Discovery

Ideas can come from many different sources, both internally and externally. As analysts first and foremost, all members of the team are encouraged to follow their enthusiasms.

Ideas are raised at our six-weekly 'prospects meeting'. Over the intervening weeks, the individual members of the team will write deliberately succinct research reports which are circulated to the wider team ahead of weekly stock discussions. The reports follow a set structure, answering five key questions (shown on page 6) which focus the author on the critical issues. Every report is accompanied by a devil's advocate piece written by another member of the team to ensure that all angles are addressed and that 'group think' is avoided.

## Debate

The weekly stock discussions, which begin by agreeing on an appropriate agenda to ensure consistency, are the setting for the team to debate freely and form a view on individual stocks. Different perspectives are heard, and ideas robustly challenged. These meetings are carefully minuted so that we have a record of the key issues discussed and can refer back to them when monitoring the progress of an investment. This is an important component of our process: we consciously try to avoid the trap of changing our investment case to match events over time.

## Decision

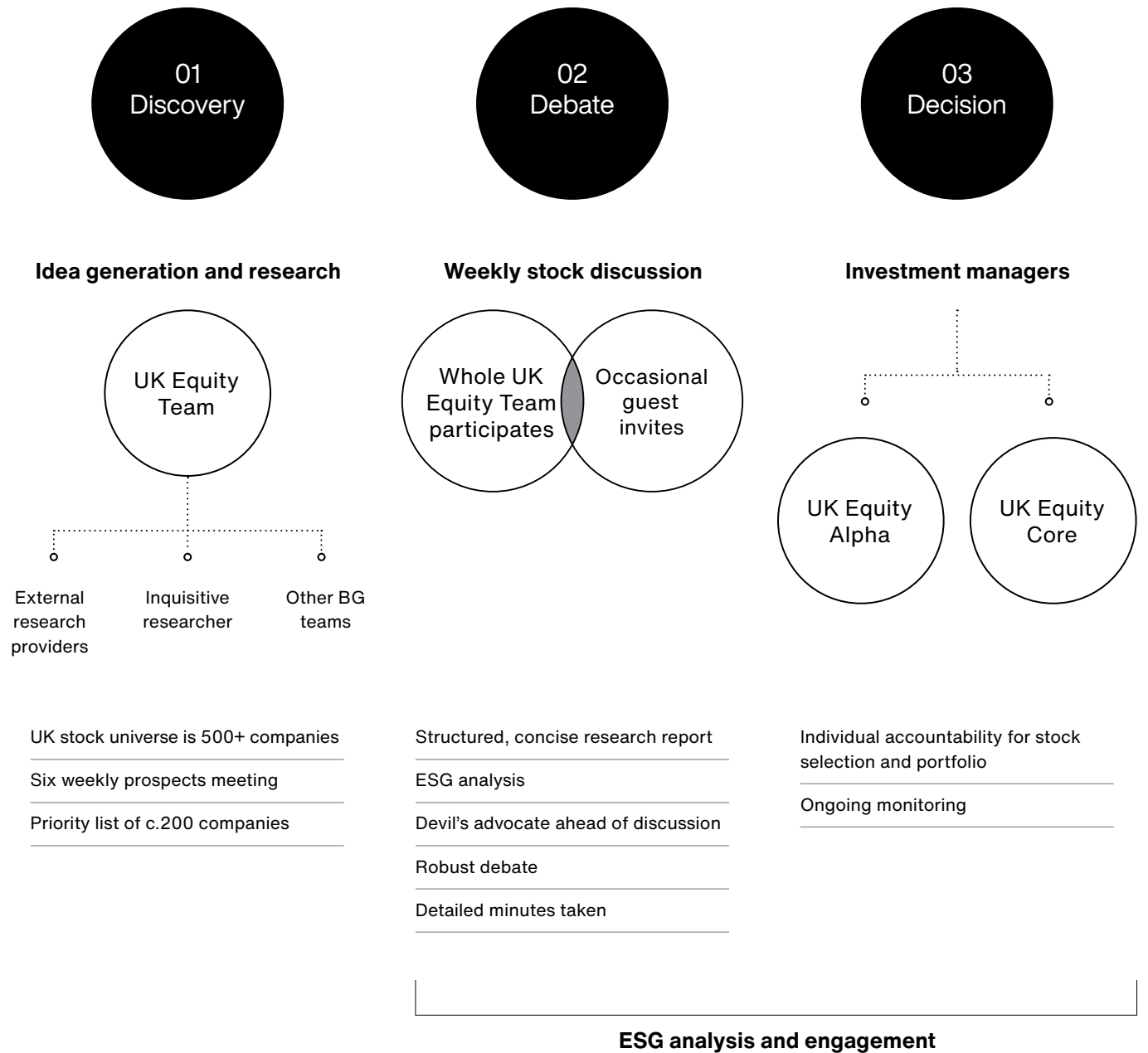
The UK Equity Team runs two main specialist portfolios: UK Alpha and UK Core. This ensures that we can efficiently meet the different performance and risk objectives of a range of clients.

Both models have a lead manager who takes the final decisions as to what investments are held and in what size. Importantly though, both models are the collective responsibility of the team, and performance-orientated incentives are based on all of the assets managed by the team. In this way we try to ensure a sense of investment manager ownership, enthusiasm and team engagement, while avoiding the pitfalls and constraints of consensus decision-making.

## Ownership

Once a holding has been taken in a company it becomes the responsibility of the entire UK Equity Team even if it is only held in one of the portfolios. Ongoing oversight of the companies we own on behalf of our clients is just as important as the initial investment decision and different members of the team will engage and meet management regularly during the year to monitor and review each underlying portfolio holding. This ensures that the main tenets of all our investment cases are adhered to and that the businesses we invest in for our clients are performing as expected.

The flowchart below summarises our UK equity process.



## Our five-question framework

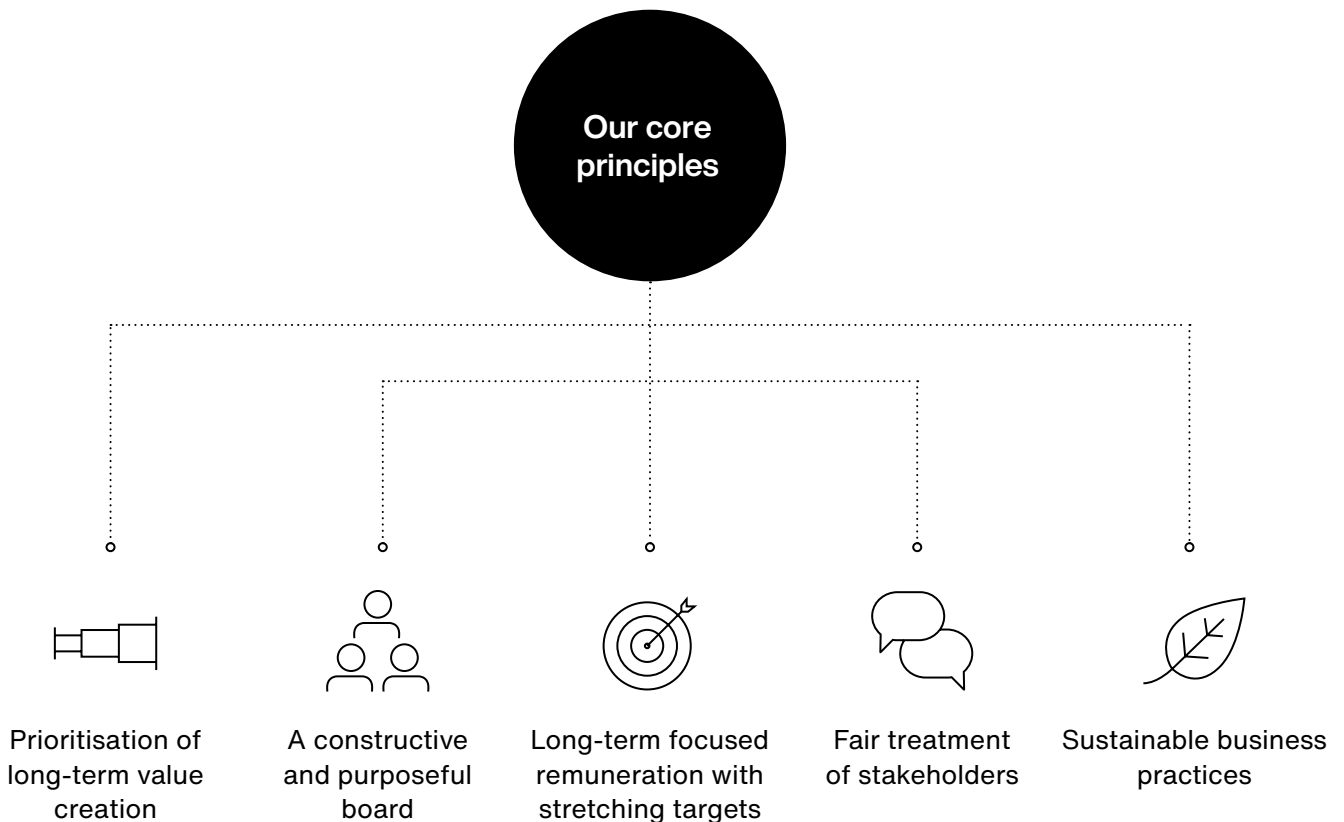
<b>Edge</b>	What does it do? Why is it interesting?	Industry background; company specific factors; competitive position; key issues pertinent to the investment case
<b>Sustainability</b>	What if any ESG factors are material to the investment case? Consider both opportunities and risks.	Management alignment; board structures; sustainable business practices
<b>Growth</b>	What will it look like in five years?	Sales; profit margins; capital allocation
<b>Valuation</b>	Should we own it?	Valuation; why should the shares perform well? Likely valuation in five years and beyond
<b>Discipline</b>	If so, what would make us sell?	Awareness of key risks; any 'non-negotiable' aspects of investment case



### Our approach to stewardship

Our ‘bottom-up’ approach to stock selection leads us to focus on trying to understand the fundamental drivers behind individual businesses. We typically hold these investments for five to ten years – long enough for the fundamentals to emerge as the dominant influence on share prices. Cultivating conviction in corporate governance and sustainability in its broadest sense is a critical part of this process.

We also believe that our responsibilities go further. We want to help companies fulfil their potential by encouraging them to invest in growth opportunities and to eschew the short-term pressures of the stock market. With the support of two members of Baillie Gifford’s specialist ESG resource dedicated to UK Equities, our investment team engage regularly with management, offering support and constructive challenge in pursuit of our mutual long-term interests. We strongly believe that stewardship is synonymous with responsibility, long-termism and sustainability.



# Risk management

Investment risk is a key consideration for all clients. We do not simply believe risk is about short-term underperformance against an index or the control of tracking error, but is fundamentally about avoiding investing in companies that materially disappoint on operational delivery. The main element of risk control is therefore investing only in opportunities that we have fully researched, and for which we understand the key issues.

We acknowledge however that regardless of our high levels of fundamental due diligence, sometimes the outcome will differ from our original investment thesis. We therefore apply portfolio diversification rules including the number of holdings and exposure to sectors. These limits are widely set: they exist to protect clients against unforeseen outcomes, not to limit our ability to invest meaningfully in our best ideas to add value. We are not required to own stocks simply because they are large components of an index.

Complementing our focus on fundamentals, the firm has an independent Investment Risk, Analytics and Research Department which has overall responsibility for reviewing all client portfolios using a variety of tools. This department reports to the UK Equity Team formally on a regular basis as a catalyst for discussions on portfolio risk. They also provide bespoke investment risk analytics and research on topical issues.

The Investment Risk, Analytics and Research Department has a separate reporting line to our Investment Risk Committee, ensuring compatibility with client objectives is independently assessed, and providing a resolution mechanism should one be required.

The UK Equity Team runs two specialist UK models: UK Alpha and UK Core. These have a range of outperformance targets and differing expectations of benchmark relative volatility to suit the varying needs of our clients. Both models are constructed on a bottom-up basis with no underweight limits for individual stocks or sectors. The portfolios have meaningful positions in our best ideas and high levels of active share.

## Strategy characteristics and guidelines

### UK Equity Alpha

<b>Typical number of stocks</b>	30 to 50 companies
<b>Universe</b>	UK companies
<b>Benchmark</b>	FTSE All-Share
<b>Performance target (net of fees)<sup>†</sup></b>	At least 2% p.a. over benchmark index over rolling five-year periods
<b>Stock limits*</b>	+12% relative to FTSE All-Share, max 15% in any one stock. The top 10 stock holdings will be limited to a maximum of 65% of the total market value of the portfolio on aggregate.
<b>Sector limits</b>	+18% relative to FTSE All-Share. The top five FTSE sectors held will be limited to a maximum of 75% of the total market value of the portfolio on aggregate. Minimum of 3% weight invested in at least five FTSE sectors.

### UK Equity Core

<b>Typical number of stocks</b>	45 to 65 companies
<b>Universe</b>	UK companies
<b>Benchmark</b>	FTSE All-Share
<b>Performance target (net of fees)<sup>†</sup></b>	At least 1% p.a. over benchmark index over rolling five-year periods
<b>Stock limits*</b>	+4% relative to FTSE All-Share. The top 10 overweight stock holdings will be limited to a maximum of 30% of the total market value of the portfolio on aggregate.
<b>Sector limits</b>	+10% relative to FTSE All-Share. The top five FTSE sectors held will be limited to a maximum of 50% of the total market value of the portfolio on aggregate. Minimum of 3% weight invested in at least ten FTSE sectors.

<sup>†</sup> The performance target stated is aspirational and in no way guaranteed, nor is it intended to be precise, and is not used for the purpose of determining or constraining the composition of the fund's portfolio.

\* OEIC rule prevails: 5/10/40 – 10% max in any one stock and 40% max in holdings over 5%.

UK Equity Core guidelines exclude holdings in Collective Investment Schemes.

# Competitive advantages

In addition to the core philosophy, we think three other attributes stand out for Baillie Gifford's UK equity portfolios.

## **Ownership structure**

Baillie Gifford has been operating for over 115 years and retains the ownership structure of its 1908 foundation. The firm is wholly owned by the people who invest for and look after our clients. We believe such stability and longevity are important competitive advantages. This aligns our interests with those of our clients and we put them first every day. Our firm is run on a 10 to 20-year time horizon.

## **Culture**

Such stability at the corporate level allows our firm to have a constantly supportive culture where investors have the time and space to focus on the signal, not the noise. We endeavour to cultivate the rare skill of sifting through ubiquitous information to focus on what matters. We encourage our diverse group of analysts to use their imagination when thinking about how a company might look in five- or ten-years' time.

## **Patience and taking the long view**

We maximise the impact of our insights by exhibiting a level of patience and conviction that few can match. This is at the core of our investment approach. We think the ability to be patient, a healthy attitude to making and learning from mistakes, and generally embracing uncertainty in considering future investment outcomes all emanate directly from our own long-term supportive culture as a private partnership.

# People

## UK Equities

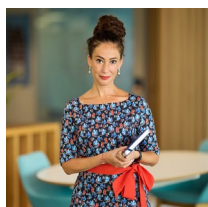


Iain is the head of our UK Equity Team and lead manager of the UK Equity Core Strategy. He is also the joint manager on our flagship Managed Strategy, which he has been involved in since 2000, and became a partner of the firm in 2005. Iain graduated MA in Accountancy from the University of Aberdeen and subsequently qualified as a Chartered Accountant.

### **Iain McCombie\***

Head of UK  
Equity Team,  
Investment Manager

30 (30)\*\*

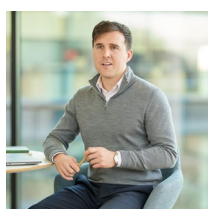


Milena is an investment manager in the UK Equity Team and lead manager of the UK Equity Alpha Strategy. She joined Baillie Gifford in 2009 and became a partner in 2022. She has also been a member of the International All Cap Portfolio Construction Group since May 2022. Milena graduated BA in Social and Political Science from the University of Cambridge in 2007 and MPhil in Politics from the University of Oxford in 2009.

### **Milena Mileva\***

Investment Manager

15 (15)\*\*



James is an investment manager in the UK Equity Team. He joined Baillie Gifford in 2022, and prior to joining the firm, worked as a Senior Investment Manager at ADIA in Abu Dhabi covering UK Equities. He began his career at Martin Currie in Edinburgh in 2012. James graduated BSc (Hons) in Economics from UCL in 2010.

### **James Smith**

Investment Manager

12 (2)\*\*

\* Partner

\*\* Years' experience (Years' experience at Baillie Gifford)

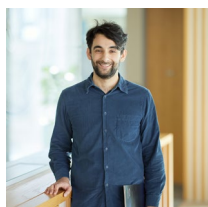


Huatai is an investment analyst in the UK Equity Team. She joined Baillie Gifford in 2019, and prior to joining the team, she also spent time working in our Smaller Companies, Multi Asset and Emerging Markets Equity Teams. Huatai graduated MA (Hons) in Sociology and Social Anthropology from the University of Edinburgh in 2019.

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**Huatai Cui**  
Investment Analyst

5 (5)\*\*



Jack is an investment analyst on the UK Equity Team. He joined Baillie Gifford in 2021 and has previously worked on the International Growth and International Smaller Companies strategies. Jack graduated BA (Hons) in History and MSt in Global and Imperial History, both from the University of Oxford.

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**Jack Allsopp**  
Investment Analyst

3 (3)\*\*



Eduardo is an investment analyst in the UK Equity Team and joined Baillie Gifford in 2023. He graduated LLB Bachelor of Laws (Hons) from Durham University as a Laidlaw Leadership and Research Scholar.

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**Eduardo Enamorado Ibarra**  
Investment Analyst

Joined in 2023

\*\* Years' experience (Years' experience at Baillie Gifford)

## ESG



**Anne Stewart**  
Senior ESG Analyst

40 (7)\*\*

Anne is a senior ESG analyst within the UK Equity Team. Prior to this, Anne was an investment director in the UK Equity Team at Scottish Widows Investment Partnership (SWIP) before being appointed as SWIP's Head of Corporate Governance. Between leaving SWIP and joining Baillie Gifford, she completed a non-executive director diploma and served as a Board Apprentice with an investment trust. Anne graduated MA (Hons) in Economics from St Andrews University and has a post graduate diploma in Accounting & Finance from Heriot-Watt University.



**Ruth Armstrong**  
ESG Analyst

9 (5)\*\*

Ruth is an ESG analyst in the UK Equity Team and leads the voting team at Baillie Gifford. Prior to joining Baillie Gifford in 2017, Ruth attended the University of Glasgow and graduated with an LLB (Hons) degree in Scots Law in 2010. She completed the Diploma in Professional Legal Practice at the University of Edinburgh in 2012. Later that year Ruth began working as a legal trainee at law firm Morton Fraser LLP in Edinburgh and qualified as a solicitor in 2014, joining the litigation team. In 2015 Ruth took a position at Lloyds Banking Group focusing on anti-money laundering. She joined Baillie Gifford as a compliance analyst in the Anti-Financial Crime Team in January 2017 before moving to the ESG Voting Team in October 2019 and the UK Equity Team in April 2024.

## UK Equity Investment Specialist



**Kathleen Hunter**  
Investment  
Specialist Director

13 (5)\*\*

Kathleen joined Baillie Gifford in 2018 and is an investment specialist director on our UK Equity Strategy. Prior to joining Baillie Gifford, she worked as a fixed income investment specialist at Standard Life, having started her career on the Aon Hewitt investment consulting graduate programme. She graduated BA (Hons) in Risk Management in 2010.

\*\* Years' experience (Years' experience at Baillie Gifford)

# 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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