

**Baillie Gifford™**

# International All Cap

Philosophy and Process



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# Philosophy

We follow a bottom-up fundamental approach to stock picking that focuses on companies that have strong competitive positions, have decent industry tailwinds to their growth, and where we have confidence in management's ability to execute on that opportunity and that they are trustworthy and ambitious. Portfolio construction is therefore driven by stock selection rather than top-down, macroeconomic asset allocation. Our approach is to buy and hold but particularly to buy when pricing dislocation offers opportunities.

We are growth investors and place great emphasis on the quality of the companies in which we invest and their ability to sustain their growth. A good deal of our analysis focuses on whether or not each company has a sustainable competitive advantage and robust financials. This leads us to invest in companies that are higher quality than the market.

By higher 'quality', we mean those that have above-average returns on equity or capital. This is generally evidenced by our holdings simultaneously displaying higher returns on equity and lower leverage levels.

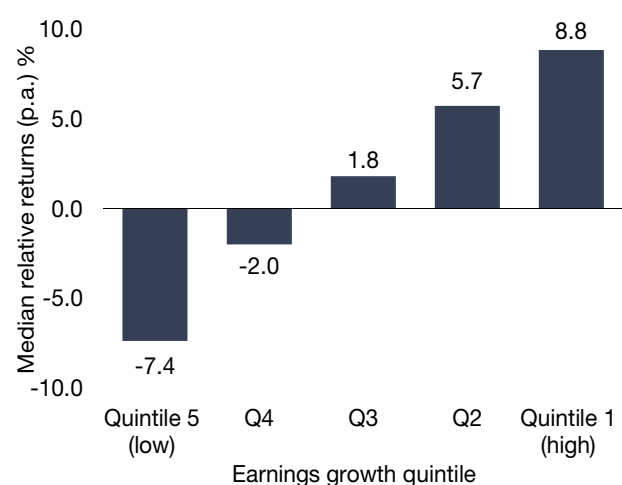
While our portfolio is the output of a bottom-up driven stock-picking approach, there are some long-term tailwinds that underpin growth, and we have tended to divide the portfolio into four when we think about those tailwinds.

The first is the tailwind of demographics which is creating opportunities for healthcare companies that can solve the problems of rising costs. The second is the growth opportunity that comes from the rising number of middle-class consumers around the world, particularly in Asia. The third is the opportunity from applying innovation and technology to industry, areas such as factory automation and the growth of electric vehicles. The fourth is the shift to online of industries such as retail, media and payments.

## Growth

### Delivered median relative returns by earnings growth quintile

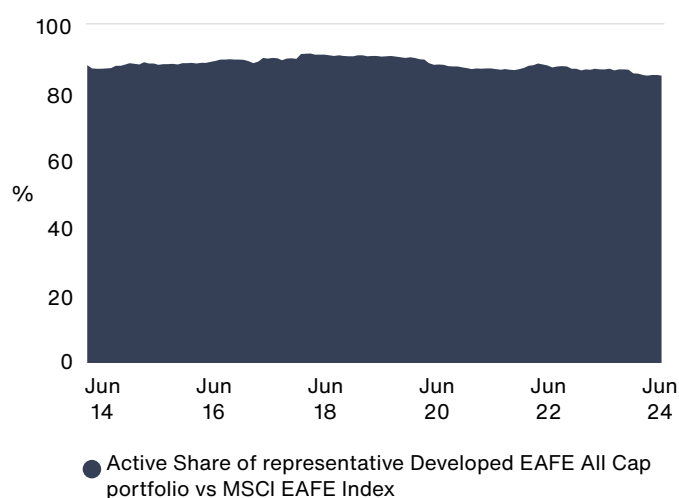
Rolling five year horizons (1999–2023)



Source: FactSet, MSCI. US dollar.  
The universe consists of all stocks listed in the MSCI ACWI ex US at each starting point.

## Bottom-up stock selection

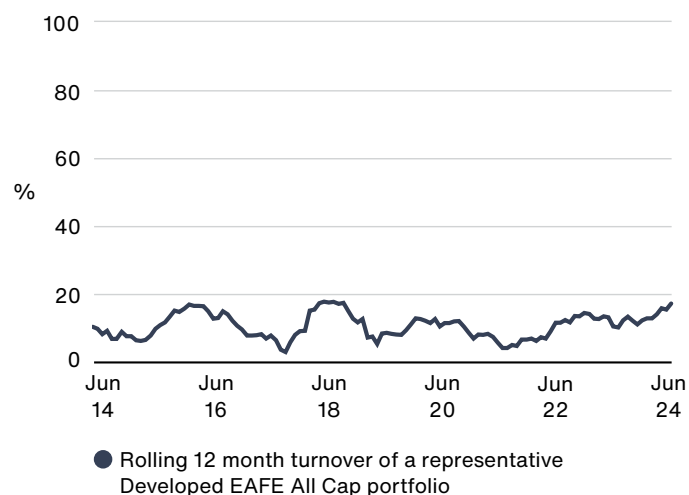
### Active Share for a typical International All Cap portfolio



Source: Baillie Gifford & Co and MSCI.

## Long-term perspective

### Turnover for a typical International All Cap portfolio



Source: Baillie Gifford & Co, MSCI.

# Process

The Portfolio Construction Group (PCG) follows a repeatable and well-established process. The experience of the individuals involved and the consistency created by our five question framework ensure that only the best ideas make it into the portfolio.

## Five question framework

### 01

#### Growth

- Will this company be significantly larger in five years?

We look for companies with a sustainable, and ideally strengthening, competitive advantage and market share within favorable industries that have the opportunity for strong future growth. We think companies with strong balance sheets and cash generation have the potential to generate superior returns through self-financed growth.

### 02

#### Management

- Are management sensible guardians of our clients' capital?

We form judgements on motivations and incentives, looking for management's long-term interests to be closely aligned with those of the shareholders. We expect them to be trustworthy. In particular, we look for evidence that the business is being run in shareholders' interests in the incremental deployment of capital.

### 03

#### Sustainability

- What are the environmental and social implications for this company?

We consider sustainability matters spanning the company's intent, its business practices and its products/services and the associated long-term risks and opportunities these pose. This is complemented by the ESG specialist writing a pre-buy note.

### 04

#### Valuation

- Why is this growth not reflected in the current share price?

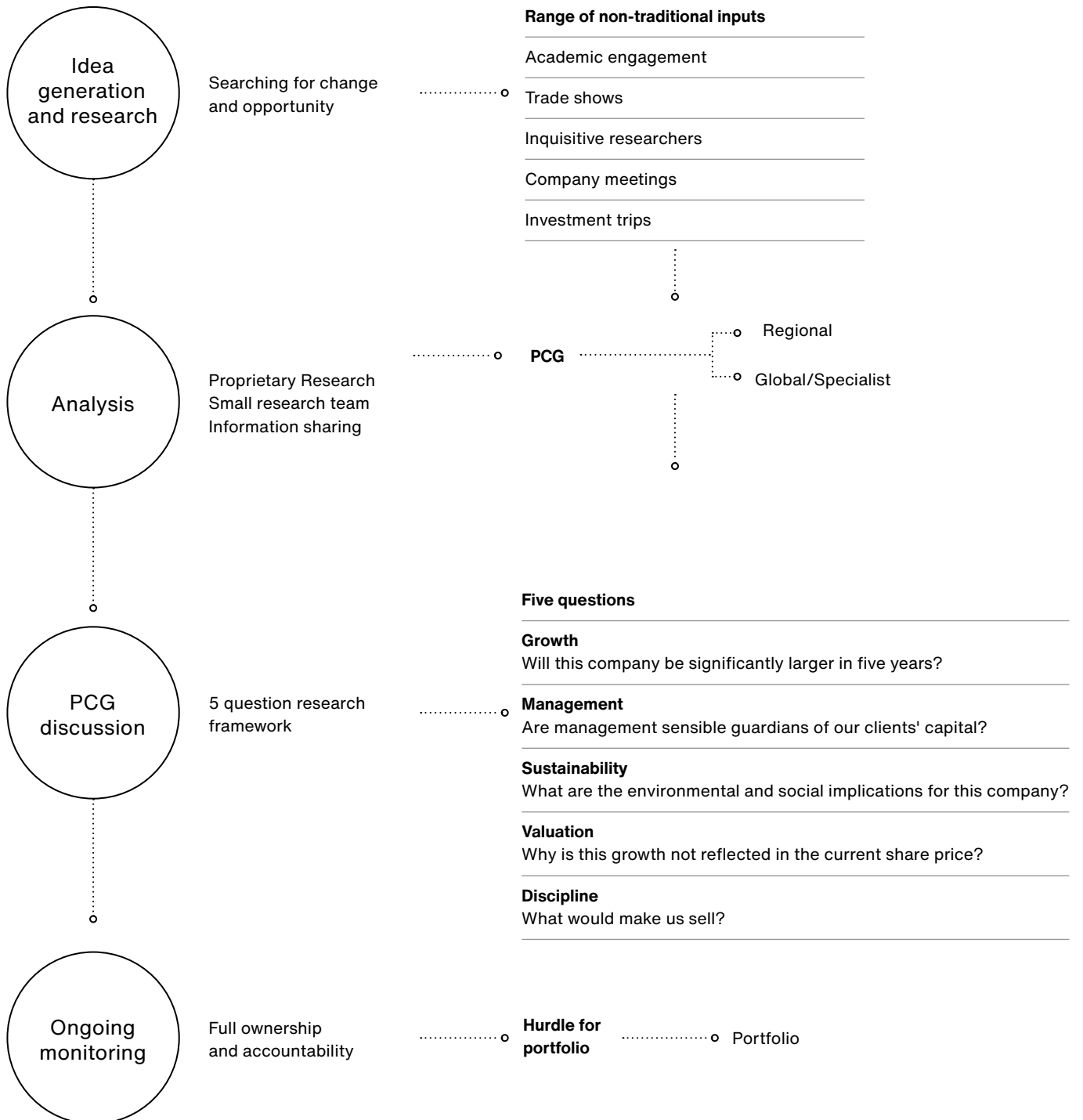
Our objective is to invest only in undervalued companies, but we are prepared to pay seemingly high short-term valuations where our confidence in longer-term growth is sufficiently high. We look at the current and likely valuation in five years' time, so our time horizon is a key differentiator.

### 05

#### Discipline

- What would make us sell?

When evaluating stocks, we consider 'non-negotiable' aspects of the investment case and key risks. This helps us monitor stocks effectively and ensure focus on any material changes from the original investment case.



## Debate

Once the research and analysis is under way, the next step is to debate [the investment case] – a skill that is woven into everyday life at Baillie Gifford. Informal discussions combine with more formal debates within investment teams, and this continues at firm-wide meetings. Every stage allows analysts to enrich their thinking, benefiting from the depth of knowledge of their colleagues. Vigorous debate also provides a mechanism for ideas to be shared more widely.

If a stock idea generates interest from a PCG member, it will be brought forward to be discussed and debated by the group. Each member of the PCG makes a valuable contribution to the debate on the individual merits of each company. To provide a consistent approach to the assessment of investment opportunities, the PCG has developed a five question framework.

In addition, our dedicated ESG analyst completes an independent analysis of each potential holding's governance structure and practices as well as considering relevant environmental and social issues.

## Decision

The final decision follows the PCG debate. A decision is made by the group on whether to purchase a position by asking the question – does it deserve a place in the portfolio?

Members of the group have full responsibility for all the stocks held. Reflecting this, the PCG members are remunerated on the basis of the performance of the whole portfolio, with this being measured over a period of five years. Individuals are therefore incentivised both to promote best ideas for inclusion in the portfolio and to challenge others' ideas.



# Risk management

Our attitude to investment risk is pragmatic. We aim to ensure that we are thoroughly aware of the level of risk that we are taking and its possible implications. Our central investment management philosophy is to buy shares in successful, growing businesses which enjoy sustainable competitive advantages in their markets.

The key risk to this philosophy would be poor analysis of the fundamentals, leading to bad investment decisions and poor performance. We continuously re-examine the fundamental performance of the companies in which we invest and the expectations upon which our investment decisions are based. The investment case for each major company owned is subject to regular review, including a peer group review at a meeting attended by our investment professionals.

We reject the conventional definition that risk is simply volatility around a benchmark. As the benchmark is only there as a guide, we expect and accept volatility. Moreover, 'risk' cannot be defined by one number. As long-term fundamental investors, we consider 'real' risk as the permanent loss of capital. We start the process of trying to control this risk in the way the portfolio is constructed and through pragmatic levels of diversification.

As bottom-up investors, the sector/industry and country weightings of the portfolios are residuals of our process. For diversification purposes, the PCG has sector, country and stock deviation guidelines in place relative to the index. These are applied to ensure that the stocks selected drive performance rather than any unintended large thematic exposures. These positions are regularly reviewed by the PCG.

Furthermore, an investment risk analyst reports to the group on these and broader risk considerations formally on a quarterly basis and also by attending the monthly portfolio meeting.

In addition, the independent Investment Risk, Analytics and Research Department oversees and monitors levels of risk being taken within the portfolios to ensure that they are managed with a level of risk consistent with clients' performance expectations. They consider a number of quantitative measures of risk. A risk decomposition highlights the sources of risk and independent style analyzes are used to compare portfolios with our stated investment philosophy. Any issues arising are discussed with the PCG and, if necessary, with Baillie Gifford's partner-led Equity Investment Risk Committee. Appropriate action is taken where required.

<b>Stock</b>	Index weight $\pm$ 5%
<b>Country</b>	Index weight $\pm$ 10%
<b>Sector</b>	Index weight $\pm$ 15%, with investment in at least five sectors (with at least 3% in each)

## Strategy Characteristics

Variants	ACWI ex US All Cap	EAFE Plus All Cap	Developed EAFE All Cap
<b>Inception date</b>	June 30, 2002	December 31, 1989	March 31, 1992
<b>Typical benchmarks</b>	MSCI ACWI ex US	MSCI EAFE	MSCI EAFE
<b>Maximum EM exposure</b>	Unconstrained	15%	No EM investment
<b>Guideline number of stocks</b>	60–90	60–90	50–90
<b>Typical active share*</b>	c.90%	c.90%	c.90%

Source: Baillie Gifford & Co, MSCI. As at June 30, 2024.

\*Relative to benchmark. Active share is a measure of how actively managed a portfolio is. If a portfolio has no commonality with the benchmark then 'active share' will be 100%. Active share is calculated by taking 100 minus the 'common money' (the % of the portfolio that overlaps with the index).

# Competitive advantages

**Our competitive advantages can be summarized across the following areas:**

## **Belief in the long term**

We are strong believers in the power of compound growth. We believe the best way for long-term savers to exploit this is via the unique exposure to real productive assets offered by global stock markets.

Owing to the broad collection of growth businesses available, we think international stock markets will offer an array of exciting opportunities over the coming decade or more. We hope and expect that we can add value after fees by selecting a relatively small number of terrific businesses and holding them for a long time.

## **Stability and resilience**

Baillie Gifford is an independent partnership, wholly owned by partners who all work within the firm.

This structure has provided tremendous stability of people and process, which we believe provides the right environment for imaginative research and patient investing.

## **Culture and staff development**

Recruitment and in-house training remain key to our future success. Many of our partners began their careers at Baillie Gifford as graduate trainees. Investment staff turnover is very low.

One of our greatest assets is our continuity of staff. We invest heavily in our graduate training program, which lasts three to five years, and move our graduates through our investment teams to give them experience of a range of investor styles. We believe that this is a differentiating part of our training, and it also aids the communication of ideas amongst various groups.

## **Differentiated sources of information**

To be different from both the index and the market you have to think differently. We do this by looking outside the usual financial industry sources of information. Our idea generation process harnesses a diverse array of information sources and over the past decade, a larger share of the firm's research budget has been directed towards developing links with academia and industry experts.

## **Company relationships**

Knowing the management teams and cultures of the companies we invest in is an integral part of our process. We are fortunate to have access to management teams and have developed deep and long-lasting relationships with many of our strategy holdings. We are persistent active owners, and this relationship is very much two-way. We support our management teams to invest in the business for the long term, providing additional capital where needed, and encouraging them to do the right thing by all stakeholders, even if it means a short-term hit to profits. Furthermore, the connections Baillie Gifford has established and continues to cultivate with earlier-stage innovative companies and their founders offer a competitive advantage. Numerous private companies are potential rivals, suppliers, and customers to the public listed companies in our investment portfolio. Our engagement and investment in these emerging businesses not only refine our strategic insights across various industries and sectors for our investments in publicly traded companies but also enable us to identify the transformational or high-growth companies of the future.

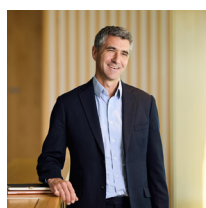
# People

The strategy is managed by a group of experienced investment managers collectively called the International All Cap Portfolio Construction Group (PCG).

In 2024, the PCG established a central desk composed of Iain Campbell, chair of the PCG, and Joe Faraday. The remainder of the PCG are senior members of regionally-focused investment teams, including European Equities, UK Equities, Emerging Markets Equities and Chinese Equities. This creates a hybrid approach, combining focused portfolio management with best ideas research from across Baillie Gifford's large regional equities teams.

This deep regional specialism complements the proprietary research undertaken by the International All Cap central desk on which two PCG members sit, and results in an enviable blend of self-directed research into the areas of most interest and an ability to filter firmwide research down to the very best ideas.

The International All Cap PCG is introduced below.



**Iain Campbell\***

Iain is an investment manager in the Japanese Equities Team. He is deputy manager of Developed Asia Pacific portfolios and is a member of the International All Cap Portfolio Construction Group. He became part of the International All Cap central desk in 2024. Iain has been a member of the Managed Team since 2014. He joined Baillie Gifford in 2004 and became a partner of the firm in 2020. Prior to joining Baillie Gifford, Iain worked for Goldman Sachs as an analyst in its investment banking division. He graduated BA in Modern History from the University of Oxford in 2000.



**Joe Faraday**

Joe is a member of the International All Cap Portfolio Construction Group and in 2024 became part of their central desk. He joined Baillie Gifford in 2002. Joe graduated MEng in Chemical Engineering from the University of Cambridge in 2002 and gained an MBA from the University of Edinburgh in 2009. Joe is a CFA Charterholder.




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**Sophie Earnshaw**

Sophie is an investment manager in the China Equities Team. She is a decision maker on our China Equities Strategy, which she has managed since 2014, and on our China A Share Strategy since its inception in 2019. She also provides China insight to the Emerging Markets Leading Companies and International All Cap portfolio construction groups. She is a CFA Charterholder and graduated MA in English Literature from the University of Edinburgh in 2008 and MPhil in Eighteenth Century and Romantic Literature from the University of Cambridge in 2009.




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**Milena Mileva\***

Milena is an investment manager in the UK Equity Team and lead manager of the UK Alpha Strategy. She is a member of the International All Cap Portfolio Construction Group. She joined Baillie Gifford in 2009 and became a partner of the firm in 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.




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**Stephen Paice\***

Stephen is head of the European Equity Team. He joined Baillie Gifford in 2005, and became a partner of the firm in 2024. Stephen has been involved in running the European portion of the Global Core Strategy and Managed Strategy since 2019, as well as becoming a member of the International All Cap Portfolio Construction Group in 2022. Prior to joining the team he spent time in the US, UK Smaller Companies and Japanese equities teams. Stephen graduated with a BSc (Hons) in Financial Mathematics in 2005.




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**Alex Summers**

Alex is an investment manager in the Emerging Markets Equity Team. He is a member of the International All Cap Portfolio Construction Group. He joined Baillie Gifford in 2022 and prior to joining the firm, worked as a Senior Investment Analyst (EM/Asia) at Stewart Investors from 2013. Alex is a CFA Charterholder and graduated BBA (First Class Honours), in Accounting and Finance from the University of New Brunswick, Canada.

\*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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