

**Baillie Gifford™**

# International Concentrated Growth

Philosophy and Process



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# Philosophy

Central to our investment philosophy is a core belief in thinking about the long term, being focused on growth and upside, and taking an approach to a concentrated portfolio that is purely stock driven and global in scope.

## **We are long term in our investment decisions**

Long-term investment is central to our investment philosophy. A company's value is rarely determined by what will happen in the next few quarters but, instead, what will happen in the many years ahead. It is over years that deep changes in industries and consumer behaviour occur and that competitive advantage and management excellence are recognised. Therefore, we feel it is necessary to judge, assess and own companies over periods of at least five years.

We believe we have an advantage in making investment decisions over a five to ten-year horizon simply because so much of the market is focused only on the next few quarters. Taking a genuinely long-term approach is also rare because it is not easy. Human beings are not well suited to delayed gratification and we believe the structure of the financial industry and its institutions only further incentivise the prioritisation of the short term. Fortunately, we believe the structure of Baillie Gifford, as a century old private partnership, and the culture this has created, allows us to block out external distractions. We believe this structure is crucial to our ability to invest in a genuinely long-term manner.

## **Focused on growth and upside**

The emphasis of our discussions is assessing the asymmetric return profile of an investment and focusing on what could go right. Finding and owning exceptional long-term winners that can potentially increase in value five-fold or more is central to our approach.

We believe that the combination of globalisation and technological change in a variety of industries is the catalyst for astonishing company growth rates, even when coming from a sizeable base, and that this is often underestimated and difficult to capture using a short-term approach. These sorts of companies offer the very best opportunities for equity investors: unlimited upside yet capped downside.

Focusing on such an upside is challenging both behaviourally and analytically. Academic research suggests that most individuals dislike financial losses at least twice as much as they take pleasure in gains. We fear that in fund management, the difference is even starker. We believe that the stability and independence of our partnership structure allows us to not fear failure at the stock level. Such fear can create a barrier to owning true outliers in returns. This allows us to invest in companies with uncertain but potentially very large pay-offs. This is an important and, we think, distinguishing feature.

## **Concentrated**

We believe that exceptional growth companies are rare. We, therefore, adopt a concentrated portfolio approach of 20-35 holdings, enabling us to focus our efforts on companies that we think are truly exceptional and where our area of investment edge is strongest. We believe that by operating with a concentrated portfolio we are able to keep the bar for inclusion very high. We also believe that if a client already has a number of equity managers, they are likely to be well diversified in terms of their overall investment exposure.

## **Global in our thinking**

As International equity managers we believe it is important not to ignore companies that may have significant effects on international markets, despite being headquartered in the US. We, therefore, allow the fund to invest up to 15% in the US, although any US companies we own must be global in their impact. We can also offer a version of the strategy which excludes US companies.

# Process

Our investment process can be broken down into four parts: idea generation, initial research, investment decision and ownership.

## Idea generation

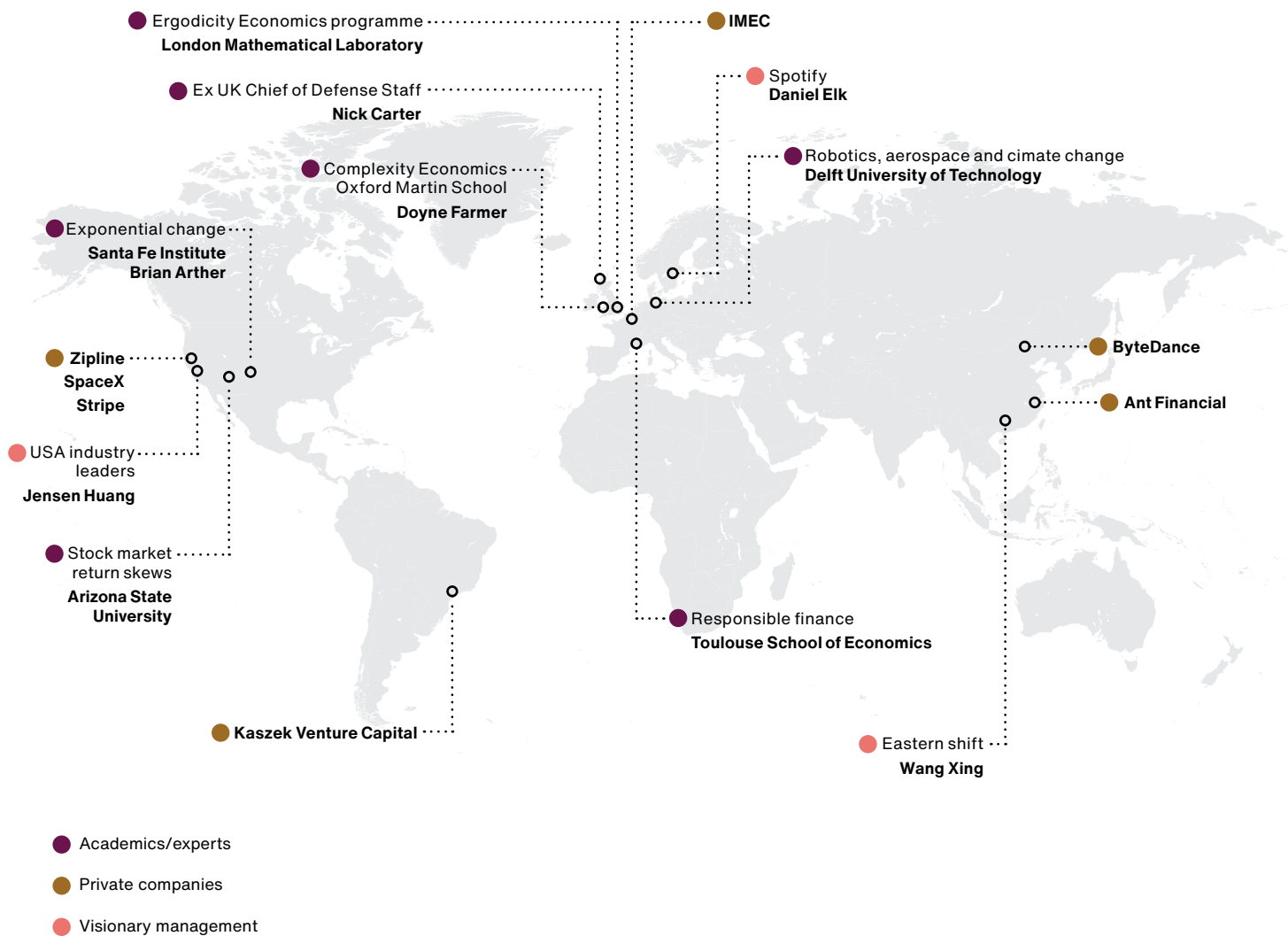
Our objective is discovery rather than coverage. All three investment managers are first and foremost analysts, finding and evaluating new ideas. As our time horizons are not very well aligned with the quarterly focus of traditional finance, having a diverse array of differentiated information sources is an important part of our idea generation process. On an ongoing basis, we seek input from external thought leaders we admire to provide a genuinely differentiated perspective on our investments, approach and overall portfolio.

In particular, we find that relationships with industry thought leaders, private companies, academics and company management provide a valuable flow of ideas to direct our efforts. We are also fortunate to operate in a firm with c.170 investors and over 20 different equity investment teams, including a presence on the ground in China. This provides us with a constant flow of ideas.

Academia provides us with different perspectives and very long time horizons. When looking for companies to invest in, we are thinking about what the world might look like in ten years' time. Our contacts therefore help us understand important trends, how these will impact society in the future, and what that means for the companies we are thinking of investing in. We are also fortunate to have rare access to corporate thought leaders who are actively changing the world and shaping the very future that we wish to understand. We therefore find these relationships helpful to understand changes in the broader world not just the companies they run. These relationships are not easy to build and can take years, but become possible upon demonstration of being large, patient and long-term owners.

Private companies provide another window into the future allowing us to understand the latest trends and areas of future disruption. Baillie Gifford's investments in private companies allows us access that those only investing in public companies would struggle to achieve. There is the option for separate account clients to have up to 10% exposure to private companies in ICG if they wish, as we believe private companies will become increasingly important as an opportunity set in years to come.

All the investment staff at Baillie Gifford are first and foremost analysts, regardless of seniority, and spend the majority of their time carrying out research. Research is widely shared and openly discussed across our open plan offices. We believe that the firm's culture, helped in part by the stable environment that the partnership provides, is crucial to the success of the collaborative research that our investors undertake. We believe that the open and challenging discussion of ideas helps to improve the quality of our research and gives us a better opportunity to make good decisions for our clients.

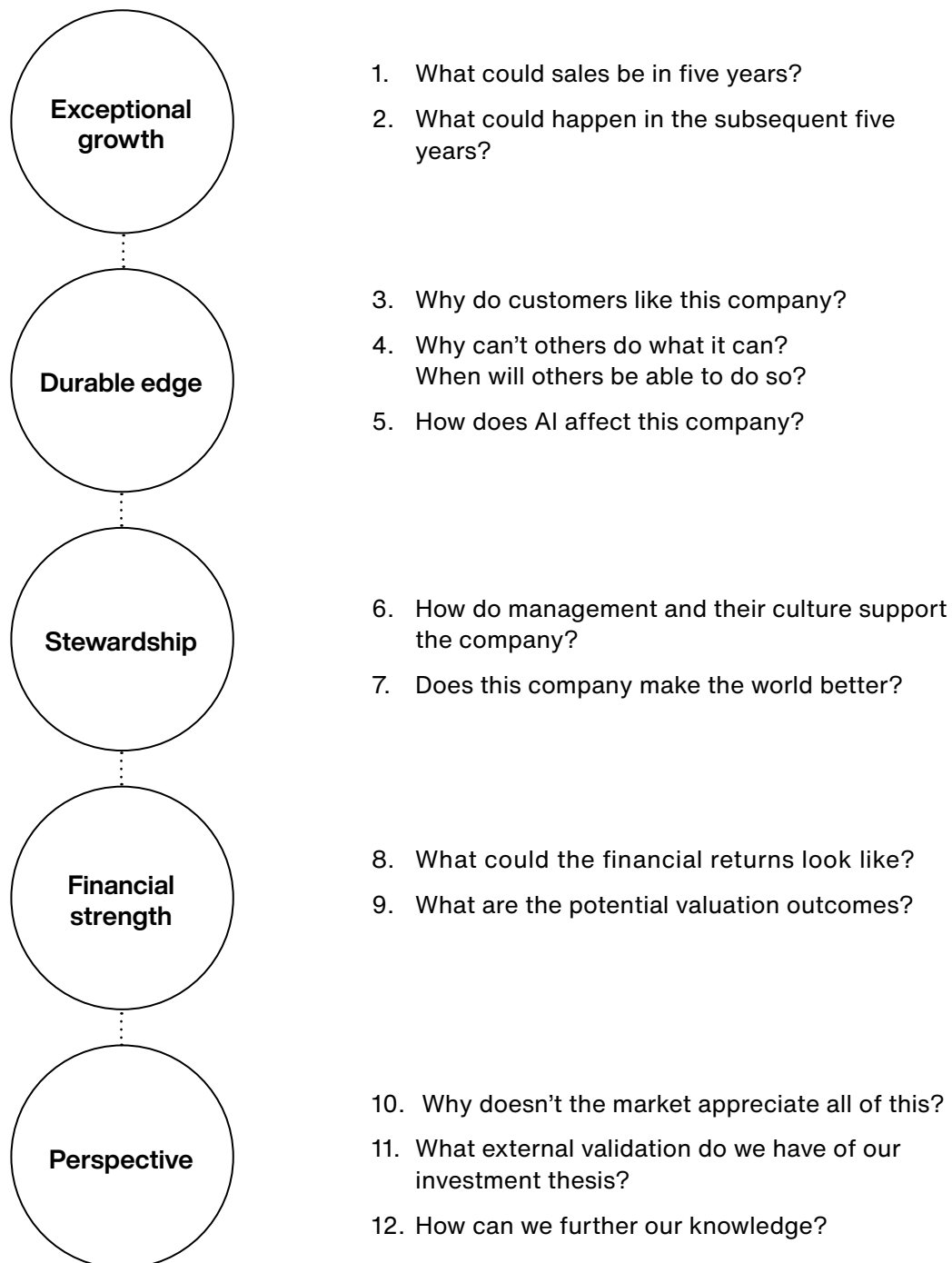


## Initial research

Our research process is long-term, bottom-up, and fundamental. It is geared towards the discovery of transformational growth companies, rather than coverage of an entire investable universe.

At the heart of our process is a 12-question stock research framework.

Each new idea in the portfolio is put through this format (or a similar in-house format) to ensure our analysis is consistent and focuses on the long-term fundamentals and upside potential. Our research frameworks consider both the scale and sustainability of the opportunity on a five-to-ten-year view. We use our analysis to the questions to help us construct a probability-weighted valuation, which looks at long-term scenarios for the value of the company and the likelihood of success.



## Investment decision

The decisions are made by the small team of three investment managers, with collective responsibility. There is, however, a strong emphasis placed on backing the individual rather than an attempt to achieve consensus. The most rewarding investment ideas can be both controversial and highly uncertain and we believe requiring consensus on decision making would reduce our likelihood of buying such companies. In practice, this means that a holding can be taken if it has the backing of only one investment manager. However, in order to become a larger-than-average holding, buy-in of the entire team is required. In practice, portfolio and stock discussions take place on an ongoing basis. Company developments and research are regularly discussed. Formal strategy meetings are held at least once a quarter.

The strategy is managed on a team basis. Once a company has been subject to our 12-question research framework (or similar), the three investment managers are responsible for making the ultimate decision on its inclusion (or otherwise) in the portfolio. There does not need to be consensus for a new idea to be bought for the portfolio. The team are very willing to back individual enthusiasm, however, there must be a robust discussion around the company.

The weight of any new holding will be aligned with the enthusiasm for the stock among the group, and reflective of both its potential upside, the probability we associate with this, and the competition for capital amongst other holdings within the portfolio. Individual stocks are selected on their own merits with no regard for their weight in an underlying index.

Should the return no longer be sufficient to deserve a holding in the portfolio, we will sell the holding. We do not have any triggers for automatic sales. The principal reason for a sale would be that the company performs less favorably in our analysis than before. These might include an adverse change in the company fundamentals; a loss of confidence in management; or a situation whereby a company's shares have performed well to the extent that the scope of potential upside has substantially reduced, and there are better investment opportunities elsewhere.

Exceptional growth companies are, by their very nature, rare. We adopt a concentrated portfolio approach of 20–35 holdings. This enables us to focus our efforts on companies that we think are truly exceptional and to own them in such size that the impact of each will be meaningful to clients.

## Ownership

Ownership is the most important and longest part of the investment process. It is vital that we are good long-term owners of businesses. Individual companies, particularly, those facing a transformational growth opportunity are likely to face periods of market doubt and volatility over our five-to-ten-year plus year holding period. Being patient and supportive through these inevitable periods is crucial to fully benefit from the asymmetric return potential they offer, as well as presenting attractive opportunities to build and add to our holdings.

We also hope our actions as long-term supportive investors cause companies to actively want us on their shareholder register. We believe that for some companies a large, supportive, and doggedly long-term investor can help shield management from the short-term pressures of financial markets. This can empower companies to take crucial decisions over a multi-year time horizon rather than a quarterly one. We think this creates greater long-term value for the company and our clients.

Through running a concentrated portfolio and benefiting from Baillie Gifford's scale across investment strategies we are in a position whereby we matter to companies. Moreover, we believe our long-term approach better aligns us with the management teams of the world's most exceptional long-term growth companies. These factors offer us regular access to leading industry visionaries and founders. We find such interactions invaluable in understanding both how an individual company is changing as well as wider societal and economic changes.



# Risk management

We believe the biggest risk we face is that the future is uncertain, and we don't fully understand how the world is changing. We attempt to do so primarily by applying our analytical framework and ongoing research during ownership and additionally seeking insight and challenge from external sources of knowledge. Beyond this, we think upside-based risk analysis is what matters most and therefore concentrate our effort there. The biggest mistake we can make for our clients is not owning a company creating or benefitting from transformational change.

We frame our approach to risk management this way because we believe many of the traditional risk tools are unhelpful. We do not intend to measure tracking error and we eschew the underlying assumption that the benchmark is a risk-free option for equity investors. We also find MSCI-based sectors and countries unhelpful as risk management tools. Increasingly, the country in which a company is listed or headquartered tells us little about that company or its risk profile. MSCI-defined sectors are often poor descriptors of a business and its risk profile and are frequently broad and not reflective of an underlying commonality. The tendency to classify many disruptive high-growth companies as information technology is frustrating, given they are clearly replacing traditional companies in other sectors. We find fault with this process, which can encourage a portfolio to own companies that are more likely to be incumbents that are traditional in approach and business model.

Risk is a source of competitive advantage. We are fortunate to operate in a culture and institutional structure that allows for long-term risk-taking. We have an advantage in being able to assess the outcomes for both companies and portfolios without paying significant and disproportionate heed to the capped downside. It is the perceived uncertainty in an investment case that allows for the existence of substantial upside, and it is only through genuine and material differences to indices that we can hope to do a truly admirable job for our clients.

In addition to thinking carefully about the fundamental case for each individual investment in the portfolio, we manage the overall portfolio within a series of investment guidelines. We believe these are prudent in the context of the portfolio's overall objective of maximizing returns over periods of five years and beyond.

<b>Style</b>	Growth
<b>Benchmark</b>	MSCI ACWI ex US
<b>Investment Horizon</b>	5 years +
<b>Portfolio holdings</b>	20-35
<b>Holding size</b>	Maximum 10% at the time of purchase, limit 15%
<b>Sectors</b>	Minimum 5
<b>Countries</b>	Minimum 5, up to 15% in US Equities, no Emerging Markets Limit

Given that we are often a small proportion of our client's overall portfolios, we view the value of applying further diversification within our portfolio as adding negligible value. Perhaps more significantly, we think further diversification guidelines would serve to reduce the investment manager's risk rather than that of the end client.

Additionally, once a year, we seek out an external organization or individual whose work we respect and admire. We ask them to assess our portfolio through the lens of their own expertise and find areas of opportunity and upside that we may be missing, as well as to highlight positive and negative factors that may impact our holdings. To help frame their work and our discussions with them, we provide the questions listed below. One of the three managers of the strategy also answers the following questions on an annual basis.

**01**

What big opportunities and changes in the world are being missed by the portfolio?

**02**

How do we go about reflecting them in the portfolio?

**03**

What are the changes we are already invested in but not sufficiently?

**04**

What are the best-performing companies we have not owned?

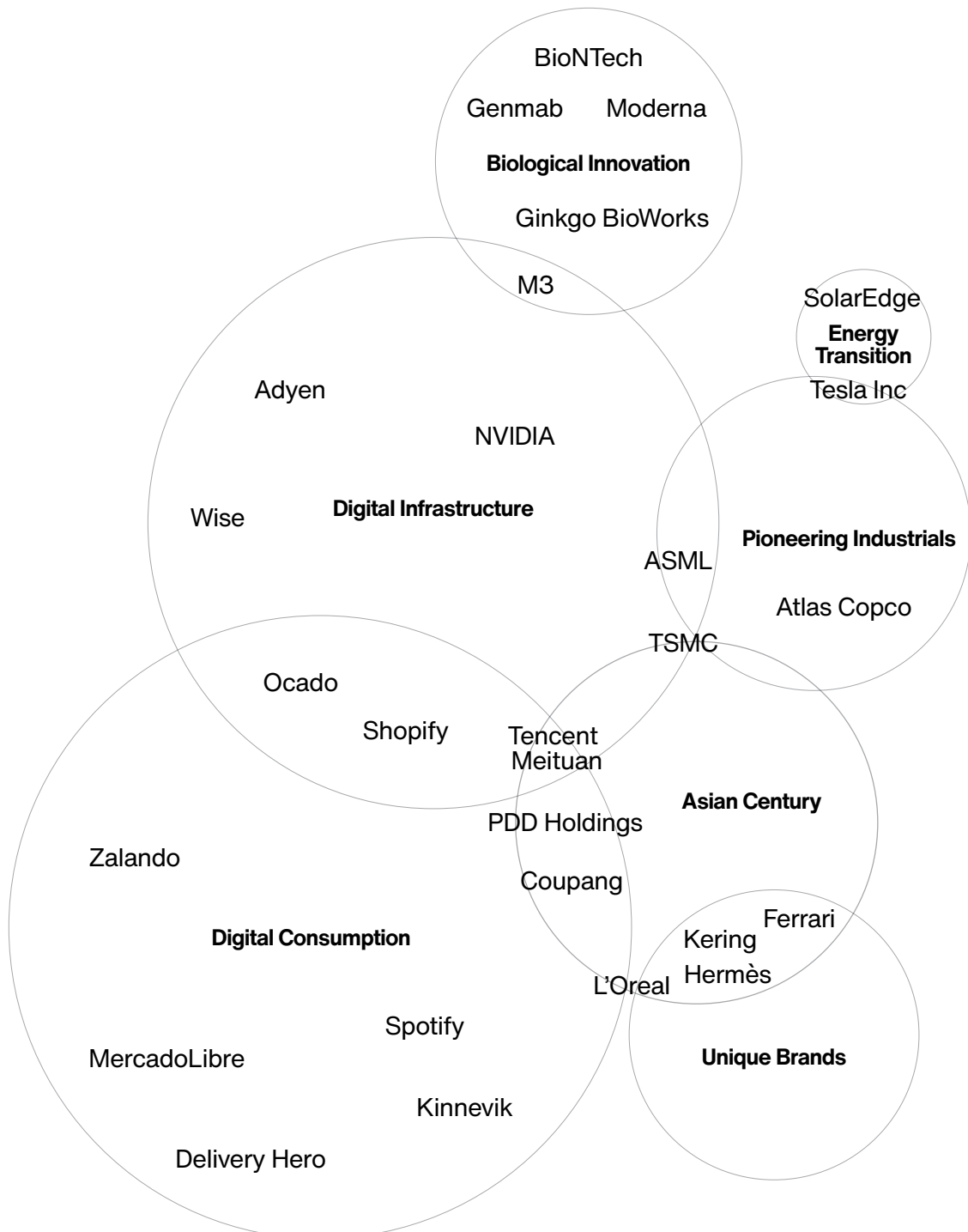
**05**

Why did we not own them, should we have and how do we make sure we don't miss similar opportunities in the future?

**06**

How can we improve our research process and decision-making?

## International concentrated growth portfolio



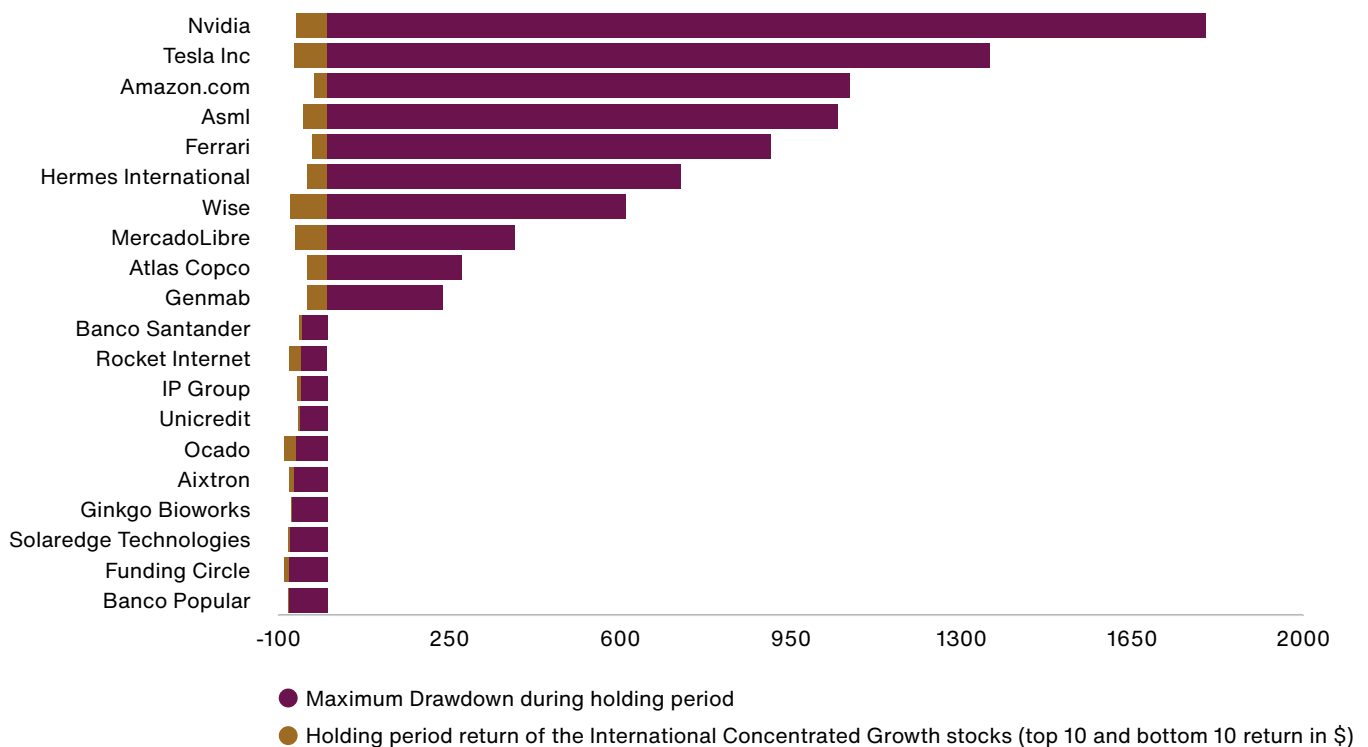
Based on a representative International Concentrated Growth portfolio.  
As at 31 March 2024. New client portfolios may not mirror the representative portfolio exactly.

# Our competitive advantages

This strategy is distinctive in three key ways. Firstly, it has exceptionally long holding periods. Secondly, its core philosophy is centred on the asymmetry of stock returns and focuses on the upside of an investment case. Thirdly, it is concentrated and willing to take large holdings in companies when justified by the probability-weighted returns available.

Our timeframe for analysis and ownership, as well as our upside focus and concentration, require a different approach and perspective. It is the stability and culture provided by our partnership structure that allows us to pursue the truly long-term, active growth investing that drives us.

## Asymmetric returns



Source: Revolution.  
 International Concentrated Growth composite. US dollar.  
 Ten years to 31 March 2024. Some stocks may not have been held for the whole period.

# People



**Lawrence Burns**

Lawrence joined Baillie Gifford in 2009 and became a partner in 2020. He has been a member of the International Growth Portfolio Construction Group since 2012 and in 2020 became a manager of Vanguard's International Growth Fund. Lawrence is a member of the International Concentrated Growth Portfolio Construction Group and a co-manager of the Global Outliers Strategy. He has been deputy manager of The Scottish Mortgage Investment Trust since 2021. He has also worked in the Emerging Markets and UK Equities teams. Lawrence graduated BA in Geography from the University of Cambridge in 2009.



**Paulina McPadden**

Paulina joined Baillie Gifford in 2013. She has worked with regional and global equities teams and is a member of the International Concentrated Growth Portfolio Construction Group. Paulina is particularly excited about the potential for the energy transition to create opportunities for disruptive companies. Hence she is helping to establish our new Climate Optimism Team. She graduated with an MA (Hons) in Arabic and Politics from the University of Edinburgh in 2013.



**Spencer Adair**

Spencer joined Baillie Gifford in 2000 and became a partner in 2013. He is a member of the International Concentrated Growth Portfolio Construction Group. Spencer has been an investment manager in the Global Alpha Team since its inception in 2005 and Monks Investment Trust since 2015. Spencer has also spent time working in the Fixed Income, Japanese, European, Emerging Markets and UK Equities teams. He graduated BSc in Medicine from the University of St Andrews in 1997.

## Client service team



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**Katie Muir**

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Katie is an investment specialist in the International equities group. She joined Baillie Gifford in 2021, prior to this, she spent six years at Dundas Global Investors and more than a decade at RBS. Katie graduated BA in Accounting & Financial Analysis from the University of Newcastle in 2001 and holds qualifications from the CISI.



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**Paul Taylor**

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Paul joined Baillie Gifford in June 2022 and is an investment specialist in the International equities group. Prior to joining Baillie Gifford, he worked for the Sovereign Wealth Fund of Abu Dhabi in their European Equities Team. He has a PhD in Molecular Biology and is also a CFA charter holder.

# 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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