

## UK Alpha Quarterly Update

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31 March 2024



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All information is based on a representative portfolio, new client portfolios may not mirror the representative portfolio exactly. As at 31 March 2024, in US dollars and sourced from Baillie Gifford & Co unless otherwise stated.

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## Past Performance

Past performance is not a guide to future returns. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio. Material market or economic conditions will have an impact on investment results. The returns presented in this document are gross of fees unless otherwise stated and reflect the reinvestment of dividends and interest.

Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction costs and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that recommendations/ transactions made in the future will be profitable or will equal performance of the securities mentioned.

## Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

## Stock Examples

Any stock examples, or images, used in this paper are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style. A full list of portfolio holdings is available on request.

The commentary relates to the above mentioned strategy and not all stocks mentioned may be held in the portfolio.

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Product Overview

The strategy adopts a long-term, low turnover investment approach and aims to hold higher quality, growth companies which are principally listed in the UK and are capable of growing their profits and cashflows faster than the market average. We are able to invest in large, medium and small capitalisation companies, constructing a concentrated portfolio of our best ideas, typically in the range of 30-40 holdings, which is highly differentiated from the benchmark, the FTSE All-Share Index.

Risk Analysis

Key Statistics

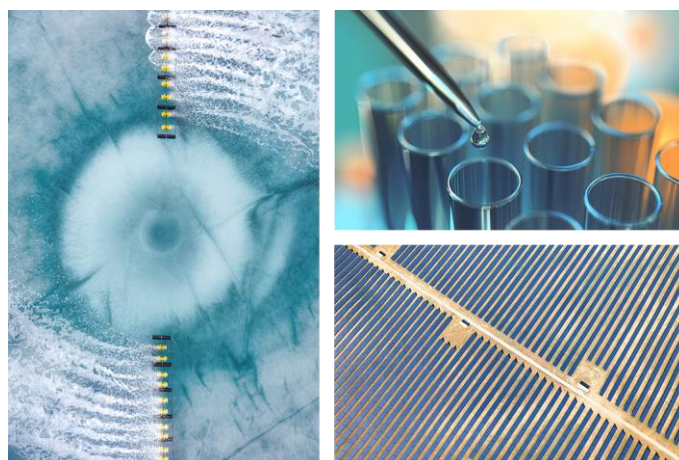
Number of Holdings	39
Typical Number of Holdings	30-50
Active Share	89%*
Rolling One Year Turnover	8%

\*Relative to FTSE All-Share Index. Source: Baillie Gifford & Co, FTSE.

We believe that the only reliable catalyst for long-term share price appreciation is enduring business growth

Taking a patient approach can allow us to profit from the market's preoccupation with short-term noise

Engaging on long-term risks and opportunities helps us to develop differentiated insights



Baillie Gifford Key Facts

Assets under management and advice	US\$290.9bn
Number of clients	655
Number of employees	1817
Number of investment professionals	393

## Investment Backdrop

After a lacklustre start to the year, the broad UK equity market rallied in the final week of March as the Governor of the Bank of England (BoE) struck a more optimistic tone on the outlook for the UK economy. Specifically, as headline inflation continued to retreat, Andrew Bailey signalled that we may see more than one interest rate cut this year. Whilst these soundbites do point to a more favourable economic environment, it is striking how subtle shifts in sentiment can have a pronounced influence on share prices, particularly over very short time periods. Therefore, you might (quite rightly) be asking why we don't attempt to trade around short-term macroeconomic events?

We believe that the only reliable catalyst for long-term share price appreciation is enduring business growth. Encouragingly, when we analysed the performance returns of the FTSE All-Share over the past thirty years, we found some evidence to back this up. For example, we observed a striking correlation between superior long-term earnings growth and stock price returns. This is why our investment process is singularly focused on identifying those companies that can grow faster than the market over prolonged periods of time. Whilst we do not expect to outperform the market every quarter, we do believe that taking a patient approach can allow us to profit from the market's preoccupation with short-term noise and costly hyperactivity.

## Investment Performance

The portfolio delivered a positive return but underperformed the index during the quarter. The holdings in 4imprint and Renishaw were notable contributors during the three-month period, whereas Ocado and Genus detracted.

In terms of 4imprint, this distributor of promotional goods continued to deliver exceptional operational results. Whilst the Covid-19 pandemic was disruptive to the promotional goods industry and 4imprint's business, our hypothesis was that the company, with its rock-solid balance sheet, would emerge even stronger and have plenty of opportunity to gain market share from weakened, small and inefficient competitors (the way it did during the global financial crisis). This has indeed been the case and, after a very strong recovery in 2022, the company continued to outperform the industry meaningfully during a more challenging

macro-economic backdrop in 2023. What has beaten our expectations is the significant increase in 4imprint's marketing efficiency.

Since 2017, the company has been gradually shifting its marketing mix towards a greater brand advertising component and away from digital performance marketing and print. Management, however, stepped this up considerably during the pandemic, when TV advertising costs were especially favourable, and both of the other channels would have made little sense (as there were no active buyers in the market). This was a brave, counter-cyclical decision by an executive team which has always had an extremely long-term mindset. It paid off, and the step-change in marketing efficiency has led to a step-up in margins, with profits 2.5x what they were in 2019.

In the case of Renishaw, shares of this world-leading engineering business were boosted by an upbeat outlook which pointed to a cyclical recovery in demand from its semiconductor end markets which have faced a challenging backdrop over the past 18 months. Despite its cyclicity, we continue to believe Renishaw enjoys compelling structural growth drivers from the increasing adoption of automation across a number of industries. The company's core skills in metrology are integral to further advances in robotics and other advanced manufacturing techniques.

Elsewhere, our investment in Ocado remained volatile and detracted from returns. In its latest set of full-year results, the online grocery retailer reported steady progress in reducing costs and returned the business to positive adjusted Earnings before interest, taxes, depreciation, and amortization (EBITDA). However, uncertainty remained around the pace of adoption of its technology. Since this will be highly dependent on demand from its underlying customers, the company recently established a 'partner success' team to help customers unlock the full potential of its technology, improve warehouse productivity and accelerate growth. We carried out an in-depth review of the company in late 2023 and decided, on balance, to retain a small holding in the portfolio. Whilst the pace of adoption might be lumpy, on a long-term view, we are still optimistic about its potential to unlock a significant share of the global online food retail market with its industry leading logistics technology.

Finally, the holding in Genus detracted from returns as the animal genetics company reported a cut to full-year profit expectations. This was driven

by short-term cyclical headwinds to demand for its genetics in the important Chinese market. It is fair to say that this downcycle has proven longer and more severe than the company anticipated, but the long-term structural opportunities from the industrialisation of the Chinese porcine industry remain intact. The management team has also been active in increasing the proportion of royalty contracts they have in this market which, over time, will lessen (though not eliminate) the cyclical nature of the business and its exposure to commodity prices. This has been successful in other geographies where royalty penetration is very high, such as the US and Latin America. Importantly, Genus is continuing to invest in pioneering technologies which could have a positive impact on long-term growth and returns, such as its PRRS-resistant pigs (PRP) programme and earlier-stage research into reproductive biology. We had a reassuring meeting with the new CEO shortly after the results were announced. As part of our ongoing engagement, we will also be undertaking an in-depth site visit with the company in April where we will meet with a broad range of people from across its porcine business in Nashville, Tennessee.

### Portfolio Activity

Competition for space in the portfolio remains high and, as detailed in the transactions section of the report, we decided to sell out of the holdings in the online retailer, Boohoo, and the energy infrastructure company, Smart Metering Systems. Having carefully reviewed our existing holdings, we used the proceeds to add to Kainos and Oxford Nanopore Technologies at what we believe are attractive valuations.

Kainos is a software consulting business based in Belfast. The group's activities are split into two main segments. The first, Digital Services, focuses on helping its customers in the public and private sectors to digitise and streamline existing processes. The second offers implementation services and software to customers of the US enterprise software company, Workday. It is fair to say that Kainos' shares have shown a familiar rollercoaster pattern over the past five years, riding high through 2020/21 and after a significant de-rating are now sitting around half the peak share price. Whilst the multiple the market is willing to pay for this business has swung wildly, the operational performance has, to date, been consistently excellent, compounding revenue and profits at 25%

p.a. in the seven years since its Initial Public Offering (IPO) in 2016. In its latest trading update, Kainos Digital Services saw revenues decline slightly bringing the group revenue growth to +7%. This was largely a function of some pandemic-related work the company did for the NHS rolling over. We believe there continues to be a wealth of long-term growth opportunities across all of Kainos' markets. In addition, its long-standing, entrepreneurial management team, and customer-focused corporate culture give us confidence that the company will capitalise on those opportunities. We are, therefore, comfortable looking through the recent pause for breath and are taking full advantage of share price weakness to make this one of the larger holdings in the portfolio.

### Stewardship

Throughout the quarter, we continued to engage with our holdings on a range of topics including remuneration, board composition and climate change. As detailed in the engagement section of this report, we had a call with Prudential's Chief Sustainability Officer to get a better understanding of some of the company's climate challenges and opportunities, which resulted in us sharing some of the work we have done on climate scenario analysis. We believe that these types of engagements, which focus on long-term risks and opportunities, help us to develop differentiated insights and lean into our long-term investing edge.

### Outlook

Looking ahead, we remain excited about the outlook for the UK equity portfolio and are encouraged by the superior growth, quality, and resilience characteristics that it exhibits. Many of the businesses we invest in for our clients have large market opportunities, strong competitive positions, and importantly, the cultural adaptability to succeed. We believe that having the nerve and patience to continue holding them over the long term is the key to realising their full potential and we thank our clients for their support.

## Performance Objective

+2% p.a. net over rolling five year periods vs index.

The performance objective is aspirational and is not guaranteed. We don't use it to compile the portfolio and returns will vary. A single performance objective may not be appropriate across all vehicles and jurisdictions. We may not meet our investment objectives if, for example, our growth investment style is out of favour, or we misjudge the long-term earnings growth of our holdings.

## Periodic Performance

<b>GBP</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	1.7	3.6	-1.9
1 Year	4.0	8.4	-4.5
3 Year	-7.1	8.0	-15.2
5 Year	-0.1	5.4	-5.5
10 Year	4.0	5.8	-1.8
Since Inception	5.7	5.1	0.7
<b>USD</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	0.8	2.6	-1.8
1 Year	6.2	10.8	-4.6
3 Year	-9.8	4.9	-14.7
5 Year	-0.7	4.8	-5.5
10 Year	1.2	2.9	-1.7
Since Inception	5.0	4.3	0.7
<b>EUR</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	3.1	5.0	-1.9
1 Year	6.9	11.4	-4.6
3 Year	-7.2	7.9	-15.1
5 Year	0.1	5.6	-5.5
10 Year	3.6	5.4	-1.8
Since Inception	4.3	3.6	0.7
<b>CAD</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	3.4	5.3	-1.9
1 Year	6.2	10.8	-4.6
3 Year	-7.6	7.5	-15.1
5 Year	-0.4	5.1	-5.5
10 Year	3.2	5.0	-1.8
Since Inception	4.6	3.9	0.7
<b>AUD</b>	<b>Composite Net (%)</b>	<b>Benchmark (%)</b>	<b>Difference (%)</b>
3 Months	5.4	7.3	-1.9
1 Year	9.1	13.7	-4.7
3 Year	-5.0	10.5	-15.5
5 Year	1.0	6.6	-5.6
10 Year	4.8	6.6	-1.8
Since Inception	4.4	3.8	0.7

Annualised periods ended 31 March 2024. 3 Month & 1 Year figures are not annualised.

Inception date: 31 July 2000

Figures may not sum due to rounding.

Benchmark is FTSE All-Share Index.

Source: Revolution, FTSE.

The UK Alpha composite is more concentrated than the FTSE All-Share Index.

## Discrete Performance

<b>GBP</b>	<b>31/03/19- 31/03/20</b>	<b>31/03/20- 31/03/21</b>	<b>31/03/21- 31/03/22</b>	<b>31/03/22- 31/03/23</b>	<b>31/03/23- 31/03/24</b>
Composite Net (%)	-13.4	43.6	-19.7	-4.0	4.0
Benchmark (%)	-18.5	26.7	13.0	2.9	8.4
<b>USD</b>	<b>31/03/19- 31/03/20</b>	<b>31/03/20- 31/03/21</b>	<b>31/03/21- 31/03/22</b>	<b>31/03/22- 31/03/23</b>	<b>31/03/23- 31/03/24</b>
Composite Net (%)	-17.6	59.7	-23.4	-9.9	6.2
Benchmark (%)	-22.4	41.0	7.9	-3.3	10.8
<b>EUR</b>	<b>31/03/19- 31/03/20</b>	<b>31/03/20- 31/03/21</b>	<b>31/03/21- 31/03/22</b>	<b>31/03/22- 31/03/23</b>	<b>31/03/23- 31/03/24</b>
Composite Net (%)	-15.7	49.1	-19.1	-7.7	6.9
Benchmark (%)	-20.6	31.6	13.9	-1.0	11.4
<b>CAD</b>	<b>31/03/19- 31/03/20</b>	<b>31/03/20- 31/03/21</b>	<b>31/03/21- 31/03/22</b>	<b>31/03/22- 31/03/23</b>	<b>31/03/23- 31/03/24</b>
Composite Net (%)	-12.2	41.1	-23.8	-2.3	6.2
Benchmark (%)	-17.3	24.5	7.2	4.7	10.8
<b>AUD</b>	<b>31/03/19- 31/03/20</b>	<b>31/03/20- 31/03/21</b>	<b>31/03/21- 31/03/22</b>	<b>31/03/22- 31/03/23</b>	<b>31/03/23- 31/03/24</b>
Composite Net (%)	-4.4	28.4	-22.3	1.1	9.1
Benchmark (%)	-9.9	13.3	9.4	8.4	13.7

Benchmark is FTSE All-Share Index.

Source: Revolution, FTSE.

The UK Alpha composite is more concentrated than the FTSE All-Share Index.



## Stock Level Attribution

## Top and Bottom Ten Contributors to Relative Performance

## Quarter to 31 March 2024

Stock Name	Contribution (%)
4imprint	2.2
Renishaw	0.5
Softcat	0.4
Reckitt Benckiser	0.3
Glencore	0.3
Experian	0.3
Trainline	0.2
Howden Joinery	0.2
Fevertree Drinks	0.2
Wise	0.1
Ocado	-0.7
Genus	-0.6
Kainos	-0.6
Auto Trader	-0.4
Rolls-Royce	-0.4
St. James's Place	-0.4
FDM	-0.4
GlaxoSmithKline	-0.4
Burberry	-0.3
BAE Systems	-0.3

## One Year to 31 March 2024

Stock Name	Contribution (%)
Abcam	2.1
Wise	2.0
4imprint	1.9
Experian	1.0
AstraZeneca	0.8
Trainline	0.7
Reckitt Benckiser	0.6
Howden Joinery Group	0.5
Softcat	0.5
Baltic Classifieds Group	0.4
Burberry	-1.7
Genus	-1.5
Kainos	-1.3
St. James's Place	-1.2
FDM	-1.1
Rolls-Royce	-0.9
Farfetch	-0.8
FD Technologies	-0.8
Shell	-0.6
HSBC	-0.6

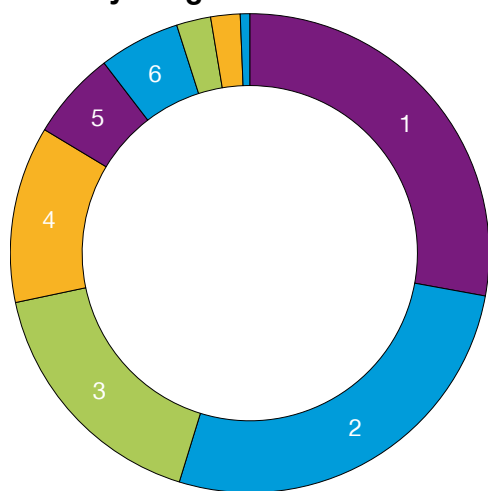
Source: Revolution, FTSE. UK Alpha composite relative to FTSE All-Share Index.

The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions to the portfolio's performance and a description on how the attribution is calculated is available on request. Some stocks may not have been held for the whole period. All attribution figures are calculated gross of fees, relative to the index from stock level up, based on closing prices. As attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio.

**Top Ten Holdings**

Stock Name	Description of Business	% of Portfolio
4imprint	Promotional products manufacturer and distributor	8.8
Games Workshop	Manufacturer and retailer of table top wargames and miniature figurines	7.8
Experian	Credit checking and data analytics company	7.4
Auto Trader	Advertising portal for second hand cars in the UK	6.9
Wise	Online provider of cross-border money transfer services	5.6
Renishaw	World leading metrology company	3.9
Softcat	Information technology (IT) reseller and IT infrastructure solutions provider	3.6
Ashtead	International industrial and construction equipment rental company	3.6
AJ Bell	One of the UK's largest online investment platforms	3.1
Kainos	IT provider of digital services and Workday	3.1
<b>Total</b>		<b>53.7</b>

**Industry Weights**



	%
1 Industrials	27.9
2 Consumer Discretionary	26.9
3 Technology	16.9
4 Financials	11.9
5 Health Care	6.0
6 Consumer Staples	5.5
7 Real Estate	2.3
8 Basic Materials	2.0
9 Cash	0.6

Figures may not sum due to rounding.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	2	Companies	None	Companies	None
Resolutions	21	Resolutions	None	Resolutions	None

Throughout the quarter, we continued to engage with our UK equity holdings on a range of topics including remuneration, board composition and climate change

We will publish our firmwide Investment Activities Stewardship Report in April 2024

The Financial Conduct Authority (FCA) published its Sustainability Disclosure Requirements (SDR) regulation at the end of 2023 which will apply to UK-based investment funds and includes a new fund labelling framework and anti-greenwashing rule

Company Engagement

Engagement Type	Company
Environmental	Prudential plc
Governance	Auto Trader Group plc, Exscientia, Ocado Group plc

Company	Engagement Report
Exscientia	<p>Objective: Because of the recent upheaval within Exscientia's boardroom, as shareholders, it was imperative to assess the board's response to these challenges and evaluate their commitment to fostering better stewardship within the company.</p> <p>Discussion: After the CEO's dismissal due to misconduct and the chair's resignation, Exscientia is focusing on maintaining unity and transparency to rebuild trust internally and externally. The company is shifting from an ad-hoc approach to a more systematic and focused strategy for governance discipline. Exscientia's board has devised a stepwise plan for recovery, emphasising the implementation of best practices and soliciting input from all levels of the organisation. Regular town hall meetings/listening sessions were initiated to foster a culture of inclusivity and candour. A process to identify the new CEO is also underway. The board is open and straight about the fact that Exscientia now needs to continue focusing on science and accelerate its timeline when possible.</p> <p>Outcome: The recent actions of the board and its new priorities reflect Exscientia's efforts to navigate through the challenges, stabilise the company, and maintain shareholder confidence by promoting transparency, accountability and sound governance principles. It will be essential for Exscientia's board to continue demonstrating good stewardship in the face of adversity and seeing the company execute its strategy and grow.</p>
Ocado	<p>Objective: We participated in a remuneration policy consultation before the 2024 AGM.</p> <p>Discussion: As part of the consultation process, we had calls with the remuneration committee chair, Julie Southern, and the chair of the board, Rick Haythornwaite, to discuss the proposal. We have been engaging with Ocado for several years on executive remuneration due to concerns with the structure of the executive value creation plan (VCP), specifically the stretch of performance targets and the absence of a maximum cap on payouts. This year, the remuneration policy sought to introduce a more traditional performance share plan (PSP) for all executives, which would replace the VCP for all executives except for the CEO, Mr Steiner, who would remain eligible to participate in both plans. We thought it was inappropriate to give Mr Steiner multiple avenues to achieve a payout, and our ongoing concerns with the structure of the VCP led us to feedback that we would be unsupportive of the remuneration policy in its current form.</p> <p>Outcome: The remuneration committee was receptive to our engagement and, in response, amended its policy. They will discontinue the VCP for all executives while incorporating a few key elements of the VCP into the PSP for Mr Steiner. We believe the amended remuneration policy better aligns pay outcomes to company performance and our clients' experience.</p>
Prudential	<p>Objective: We had a call with Prudential's Chief Sustainability Officer to get a better understanding of some of the business's climate challenges and opportunities.</p> <p>Discussion: Prudential highlighted some of the climate-related risks that could potentially have a material impact on life expectancy and, as an extension, its insurance pricing. Prudential is seeking to conduct research in this area to better understand the magnitude of these risks, which are currently poorly understood. Finally, Prudential noted the challenges of finding applicable climate scenarios, so we shared some of our work in this area.</p> <p>Outcome: This conversation highlighted the complexities of current climate models and risk assessments. We plan to continue our dialogue with the team.</p>

**Votes Cast in Favour**

Companies	Voting Rationale
AJ Bell, Smart Metering Systems	We voted in favour of routine proposals at the aforementioned meeting(s).

**Votes Cast Against**

We did not vote against any resolutions during the period.

**Votes Abstained**

We did not abstain on any resolutions during the period.

**Votes Withheld**

We did not withhold on any resolutions during the period.

There were no new purchases during the period.

Complete Sales

Stock Name	Transaction Rationale
Boohoo	We have decided to sell the small holding in Boohoo. Having let the dust settle on the post-pandemic headwinds, there is an increasing suspicion that the competitive backdrop has significantly deteriorated and it is unlikely that the business will return to profitable growth over the medium term.
Smart Metering Systems	We have sold out of the small holding in Smart Metering Systems following a take over by private equity firm KKR.

FTSE Russell

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