



Developed Asia Pacific

Philosophy and Process

Baillie Gifford™

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Contents

Baillie Gifford	4
Our approach	6
Investment philosophy	6
Investment process	7
Biographies	9

Baillie Gifford

Baillie Gifford is an unlimited liability partnership. It has been a partnership since it was founded in 1908. All the partners work in the business, ensuring the firm remains singularly focused on investing in portfolios to the benefit of its clients.

This long-term, multi-generational focus reflects the firm's approach to investing and the stability it provides to its clients.

Partnership defines us

Our partnership structure allows us to put our clients' needs first rather than dance to the tune of external shareholders. It brings stability and a long-term time frame to everything we do in our business, whether choosing the best investments for our clients' portfolios or continually investing in the firm and developing our people.

Partnership also brings independence, allowing us to be truly active investors. Our portfolios are shaped by where the best investment opportunities lie, rather than where the index dictates. We encourage personal responsibility, creating a strong culture of inquisitiveness, debate and respectful trust in which our investors are nurtured, and thrive.

Our investment approach

Curious about the world

The best investment ideas spring from analysis of future possibilities, not short-term probabilities. We set no barriers to the imagination of our investors, encouraging fresh perspectives and the use of diverse sources of information.

Fundamentally driven

The world is complex. We believe that the best way to generate long-term returns for our clients is to focus on the deceptively simple task of identifying and investing in those companies which have the potential to grow at a faster rate, on a more sustainable basis, than their peers.

We conduct rigorous qualitative research to establish whether prospective investments have the competitive, financial and strategic advantage to deliver on that potential.

Collaborative research

We like to share. Investment ideas are discussed and debated across our investment teams, from those of the most junior analysts to partners of the firm. We are always looking for that novel insight, offbeat observation or penetrating challenge to help round out the investment case and enhance our collective knowledge. There are no enduring right answers in investment, so we never stop asking questions.



Perspective matters

Companies increasingly operate in a global environment so it is not sufficient to consider investment opportunities in isolation: we also need to understand their competitive position and underlying attractiveness against their international peers. Being primarily based in a single location lets us ensure that investors have a global perspective by moving individuals between our investment teams. We value breadth of perspective and experience over excessive specialisation.

Clients come first

Baillie Gifford is solely an investment management company, and for equity portfolios we focus entirely on long-only investments. We close our investment strategies to new clients before we gain too many assets to manage, and we keep our business simple so that we can focus on investment activities rather than administration. Client relationships are handled by our highly experienced Clients Department which oversees all aspects of delivering our services to clients, ensuring that investment managers are free to concentrate on investment issues.

Objective

The objective of our Developed Asia Pacific Equity Strategy is to generate strong long-term total returns by investing principally in the countries included in the MSCI Pacific Index. We believe these markets offer a broad selection of attractive, high quality stocks capable of delivering superior earnings growth in the long term, and that market inefficiency and short-termism ensures that many such opportunities are overlooked. Our core strategy is to identify those companies through fundamental, bottom-up research and to construct relatively concentrated portfolios reflecting our best ideas.

Our approach

We are long-term, bottom-up, active growth investors

We invest in companies that we believe have the most substantial long-term (five years) growth prospects, regardless of their size, domicile, or weight in the index. We look for businesses that enjoy sustainable competitive advantages and which we believe will grow their earnings significantly faster than the market average

Our approach results in a committed portfolio which will often look very different to its benchmark. In the pursuit of superior performance over the long term, we are happy to accept volatility around an index in the short term

Our process will adapt to reflect the changing external environment. Our core philosophy, however, will not change – we are long-term growth investors, seeking to add value for our clients through genuinely active management

Investment philosophy

Our investment philosophy is to add value through active management, whereby we identify market inefficiencies and exploit them for the benefit of our clients.

We are fundamental stock pickers and our investment philosophy is highlighted by the following four areas:

Growth investors	The power of compounding is often misunderstood. Over time we believe share prices follow fundamentals. Those companies that can sustainably grow their business, significantly increasing their earnings and cash flow, over a long-term time frame, will be the best rewarded.
Active approach	In the investment industry, many firms conflate the investment risks they run for clients with their own business risk: they seek to avoid being amongst the worst performing managers, rather than daring to be amongst the best – thereby avoiding the scrutiny of their clients. At Baillie Gifford we think this is a clear misalignment of interests: such an approach also reduces the likelihood of producing outstanding investment performance and goes a long way to undermine the case for employing an active manager. We therefore encourage our investors to express conviction in portfolio holdings, often resulting in portfolios that are significantly different from the benchmark. We ask clients to accept the volatility in short-term performance in seeking significant long-term outperformance.
Long-term investment horizon	We believe a genuinely long-term approach to investment is the correct one. Our stock picking focuses on a company's potential, not just currently but over a meaningful time period, typically five years and beyond. This is a very different time frame to that adopted by many in financial markets, leading to significant inefficiencies that we aim to exploit.
Embracing uncertainty	Great investments are rarely obvious. We embrace uncertainty in the search for under-appreciated growth and the reward of superior returns. Acceptance of a wide range of possible outcomes is necessary in order to be able to deliver superior long-term returns for our clients.

Investment process

For every investment under consideration we analyse three aspects – the opportunity available to the company, its ability to execute on that opportunity, and the valuation of the business.

FUNDAMENTAL ANALYSIS FRAMEWORK

Opportunity Industry background
competitive advantage

Execution Financial growth
management attitudes

Valuation Is it in the price?

OPPORTUNITY

First, we assess a company's opportunity to deliver above average returns by analysing the market in which it operates and whether the company possesses any clear and sustainable competitive advantages. Considerations here include the growth rate of the industry, the structure of pricing, barriers to entry, the uniqueness or otherwise of products and any enduring cost advantages. Only if a company has a durable competitive advantage will its growth translate into value creation for external shareholders. Our considered assessment of the sustainability of the competitive ease is a critical part of our process.

EXECUTION

Second, we consider execution – the ability of the company to capitalise on the opportunity it has. We analyse the financial structure of the company, in particular whether it can fund growth from internally generated cash flow. We also look for tangible evidence that management run the business for shareholders, which includes their attitude to incremental capital expenditure, their willingness to exit poorly performing activities the alignment with minority shareholders and the track record of managing the company's balance sheet sensibly.

VALUATION

Third, we consider the valuation that has been placed on the company's shares to determine the extent to which the market has already appreciated these strengths. When thinking about valuation we tend to avoid agonising over small differences in near term price/earnings multiples but instead consider how earnings will develop over the long term and what this means for the future value of the business.

Portfolio construction

Our aim is to use our resources efficiently for the benefit of our clients. We feel that the ability to be nimble and make effective decisions quickly is a significant competitive advantage that we possess.

Companies that we follow are subject to the following research disciplines:

- Analysis of all results announcements (full year results, plus half yearly or quarterly results as appropriate)
- Analysis of any significant company announcements
- In-depth research reports summarising our financial analysis and our assessment of the strengths and weaknesses of a company's business model relative to its competitors

We believe that our programme of company meetings is a key element of our research and stock selection process. Our principal goal at such meetings is to gain an understanding of the long-term business model of a company, and the source of its competitive advantage.



What makes us sell

The on-going monitoring of significant developments and re-examination of the investment case for each of our holdings is an important part of the investment process.

Whilst we like to retain holdings in successful businesses, high valuations can lead us to sell if there are equally attractive businesses whose shares are less highly rated. Broadly speaking, there are three situations when we would consider selling a stock:

- An adverse change in the fundamentals of the business (e.g. deteriorating demand or pricing, rising financial worries etc.)
- A loss of confidence in management (e.g. in the wake of an acquisition we consider misconceived, or a move into a new market or business area, or an inappropriate capital raising)
- We feel it has become overvalued

In the event of the first two of these, and particularly the second, it would be normal for us to sell out of holdings completely, whereas the last one might be more likely to lead to a reduction in holdings size.

Characteristics

The strategy is a high conviction portfolio of our best ideas across the Developed Asia region.

Number of stocks	30–50
Comparative index	MSCI Pacific Index
Guideline max stock position*	+5% relative to the MSCI Pacific Index
Tracking error guidelines	2–8%
Min market cap**	US\$500m
Off Index positions***	10%

*At time of purchase.

**Guideline only.

*** Off Index positions are defined as stocks where the MSCI country classification is not one of Japan, Australia, Hong Kong, Singapore and New Zealand.

Biographies

Iain Campbell is the lead manager for the strategy and is supported by Mirbahram Azimbayli. Iain is a partner in the firm and has over 15 years of experience covering the region. Iain and Mirbahram leverage on the research capabilities offered by the Japanese Equities and Emerging Market Equities teams, as well as our Global and International equities teams.

The investment managers draw on proprietary research carried out by Baillie Gifford investment professionals covering the Developed Asian markets (Japan, Australia, Hong Kong, Singapore and New Zealand). Coverage of these markets is split between members of the Japan and Emerging Market regional equity teams and research is discussed formally at weekly meetings with members of these teams.

The analysts responsible for researching Developed Asia companies are mainly trained in-house and gain experience of working in a number of different markets both emerging and developed. They enjoy a high degree of autonomy in selecting companies for investigation as potential investments. Ideas may be generated in a variety of ways including contacts with companies within or related to the industry, industry reports, news reports and the observation of industry trends in other markets.

DEVELOPED ASIA BIOGRAPHIES



[Iain Campbell](#)

Iain joined Baillie Gifford in 2004 and became a partner in 2020. He is a member of the Japanese Equities Team. He manages various specialist Developed Asia portfolios and is a member of the International All Cap Portfolio Construction Group. Iain has been a member of the Managed Team since 2014. 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.



[Mirbahram Azimbayli](#)

Mirbahram joined Baillie Gifford in 2018 and is an investment manager in the Japanese Equities Team, having previously worked in the Global Income Growth and Global Alpha Teams. He graduated BSc in International Relations from the Middle East Technical University (METU) in 2016 and an MPhil in Russian and East European Studies from the University of Oxford in 2018.

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