

**Baillie Gifford™**

# Global Alpha

Philosophy and Process



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<b>Contents</b>	Philosophy	02
	Process	03
	Risk management	08
	Competitive advantages	10
	People	11
	Baillie Gifford	12

# Philosophy

Global Alpha is a long-term global equity growth strategy. Stock selection is bottom-up with a focus on fundamental analysis. The portfolio, investing in approximately 100 stocks, is well diversified and very different from the index. Our Global Alpha investment managers draw on the broad capabilities and insights of the wider Baillie Gifford investment teams.

Our investment philosophy is to make long-term investments in well-managed businesses which enjoy sustainable competitive advantages. Our core belief is that share prices ultimately follow earnings. For this reason, we aim to select stocks that offer the prospect of sustainable, above average growth in earnings and cash flow. Our 'growth hurdle' is to look for companies which we believe have the potential to at least double over our five-year investment time horizon. We are patient investors; we believe we can deliver greater outperformance for our clients by assessing a company's prospects for sustainable growth rather than by predicting short-term share price movements or macroeconomic trends.

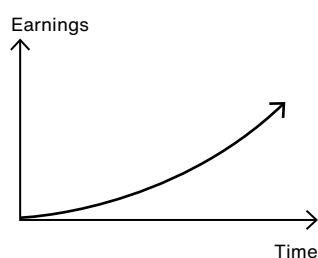
We have an open-minded approach to growth, we recognise that companies grow at different rates and at different times – we embrace the diversity of growth opportunities available to us.

We place all the stocks in the portfolio in one of three 'growth profiles': Compounders, Disruptors and Capital Allocators. Our growth profile framework helps to set expectations and ensure there is an appropriate diversity of growth across the portfolio. We expect companies in each profile to exhibit different characteristics and perform differently across the market cycle.

For each investment in the portfolio we construct a 'forward-looking hypothesis'. The purpose is to concisely lay out the core of the investment thesis and ensure a resolute focus on the progress of a company towards our long-term growth expectations. We continually retest the thesis as new information about a company arises and in context of the forward-looking hypothesis.

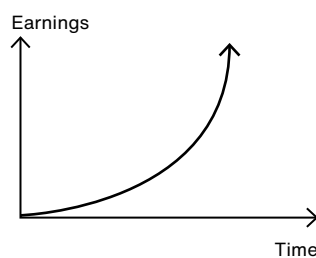
## Global Alpha stock growth profiles

### Compounders



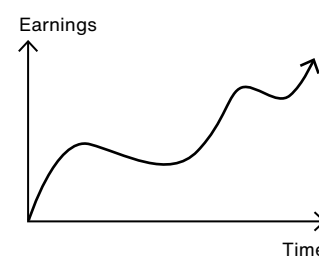
Durable franchise  
Strong competitive advantage

### Disruptors



Innovative disruptors  
Vast opportunity

### Capital Allocators



Skilled management  
Structural growth

# Process

The Global Alpha investment managers and analysts spend the majority of their time researching stock ideas. The team also leverages the work and experience of the wider Baillie Gifford research teams through our trusted advisor network (formerly investment scouts), drawing on the stock ideas and insights generated by their individual teams. The advisors fall into two groups aligned with either disruptive or flexible growth strategies. Further research is then conducted on stocks which the Global Alpha Team believe may merit inclusion in the portfolio.

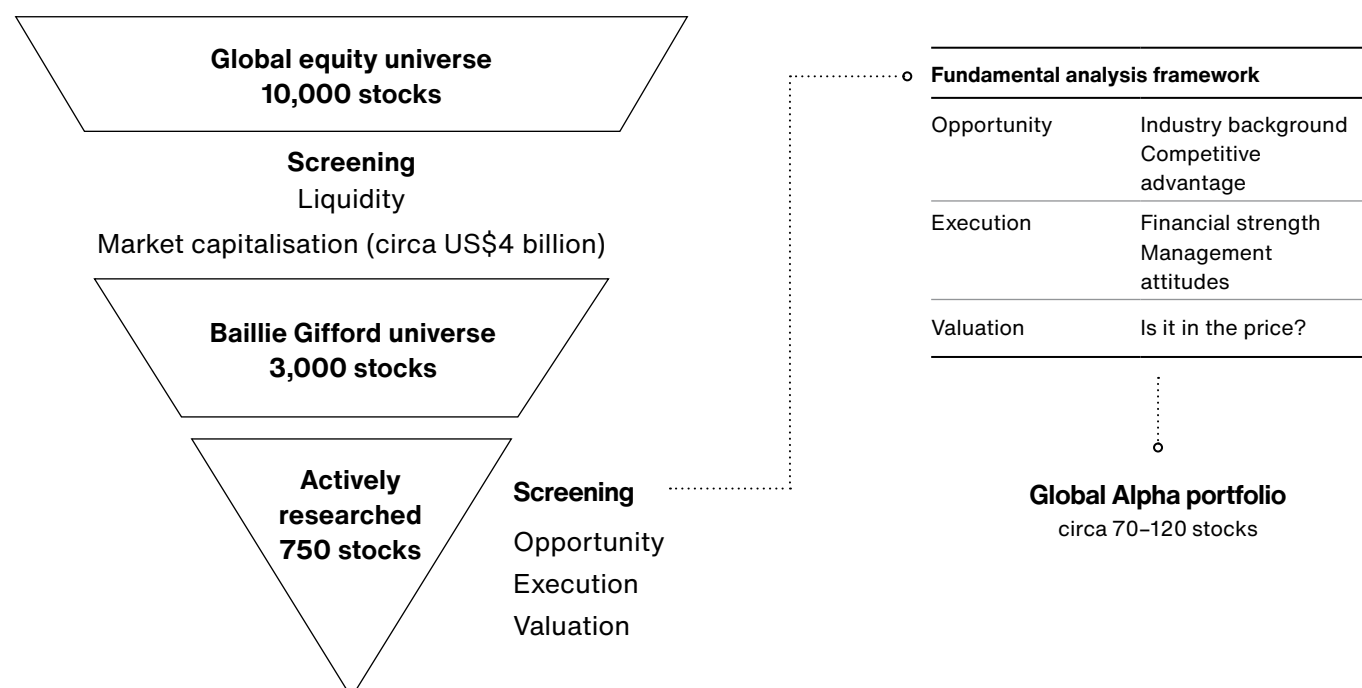
The Global Alpha Portfolio Review Group (PRG) consists of the three investment managers, and dedicated analysts together with the trusted advisors. From time to time, a topical guest may also attend to address specific areas of interest.

At the PRG meetings, which we alternate between the two growth groups and occur roughly every six weeks, the trusted advisors show their enthusiasm for stock ideas by ranking the stocks that are currently in the portfolio and those that they think warrant inclusion in the future. Ideas are debated in a global context, and where more work needs to be done, the investment managers can either take this forward themselves or ask our advisors to undertake the work.

The qualitative examination of companies is critical to the company research and selection process. We have an extensive programme of company meetings and we aim to meet with all our major holdings at least once a year.

All the research undertaken at Baillie Gifford is generated internally, using a wide range of sources including the companies themselves. 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.

## Research



The three investment managers, Malcolm MacColl, Spencer Adair and Helen Xiong, have ultimate responsibility for portfolio construction and performance.

Following debate within the PRG, the investment managers consider four questions of each potential holding when constructing the portfolio:

## 01

### **How does the stock compare globally?**

Designed to assess how the business stacks up against its global peers. It may be the best investment in its home region, but could we do better by broadening our horizons?

## 03

### **Where do we differ from the market?**

Designed to establish whether the growth potential of the stock is already reflected in the share price.

## 02

### **Is it sustainable?**

This question is deliberately broad, designed to identify any aspect of the investment case which may impact on a company's ability to compound growth many years into the future.

## 04

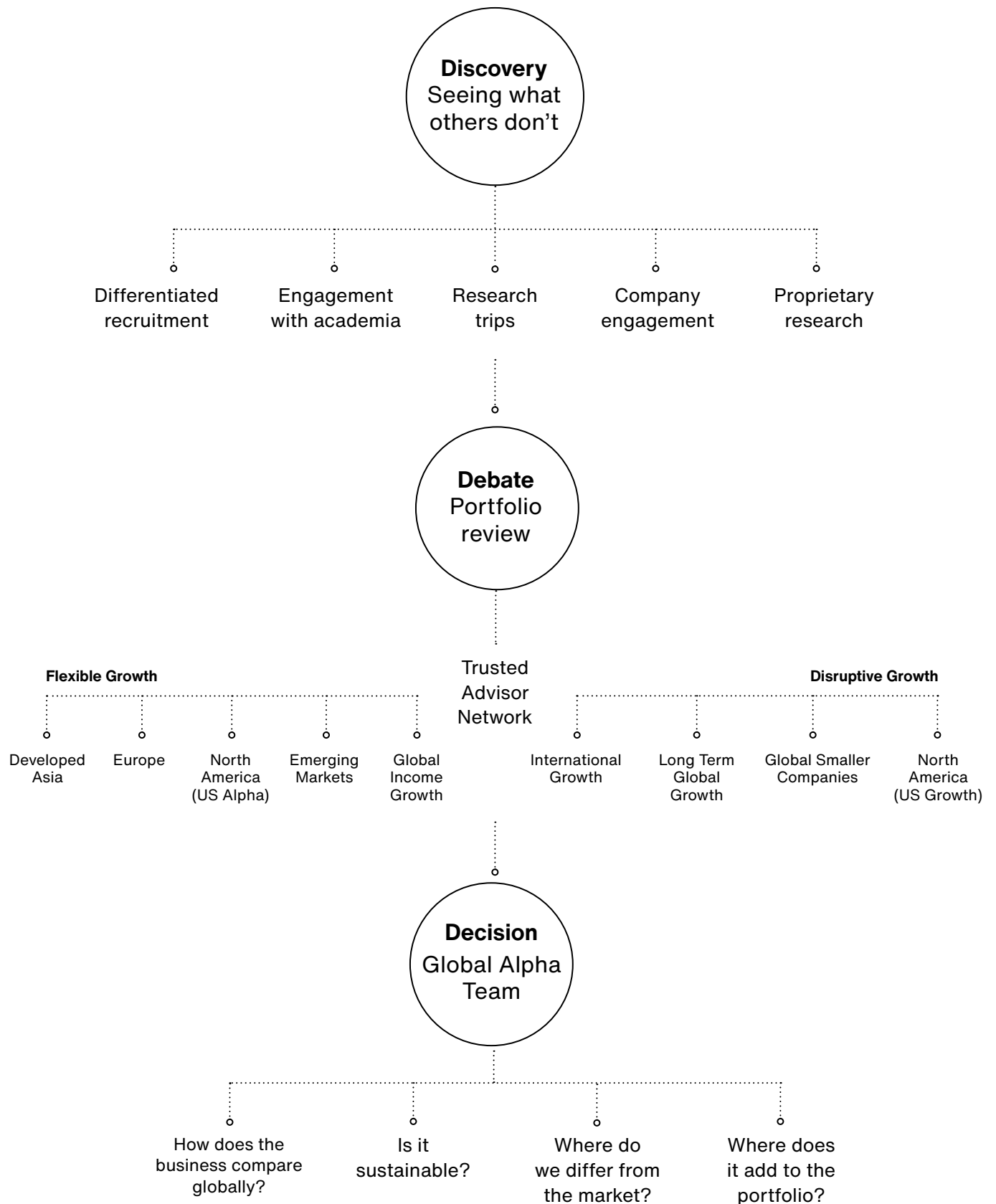
### **What does it add to the portfolio?**

Designed to seek out whether the stock is bringing a new theme to the portfolio (we are particularly keen to look for attractive diversifiers) or whether it is replicating an investment already held.

All three investment managers have an equal say in investment decisions, thereby ensuring that a majority decision is always reached. However, where one investment manager strongly disagrees with the other two, this will result in further work being undertaken in order to achieve broader agreement before any final decision is taken.

Careful consideration is given to the holding size of individual investments. We have three broad groups of holding size: circa 0.5% holdings, circa 1% holdings and circa 2%+ holdings. This is explained in more detail in the risk section of this document.

### Portfolio construction process



Our sell decisions are generated by frequent re-examination of our holdings. We particularly look for an adverse change in the fundamentals of the business, a loss of confidence in management or valuations where we think the market fully reflects our long-term view. Our 'growth profile' analysis also enables us to question whether a company is performing in line with our expectations and, if not, whether a sale is appropriate.

The structure of the PRG, which is strengthened by the knowledge of the trusted advisor network, ensures that we conduct timely reviews of stocks and that decisions can be implemented quickly and on an informed basis.

Asset allocation is stock driven on a bottom-up basis. As a result, asset allocation across the world's industries and regions is a function of where we identify the most attractive investment ideas. We have deliberately selected wide ranges for the portfolio relative to index weights at a regional level – the managers can hold up to 20% more than the index weight in a region. There is no minimum – we do not wish to be forced to invest in a region if we cannot find any attractive stocks in it.





## Stewardship for growth

The consideration of ESG factors is a key component of our long-term, active, patient and growth-focused approach to investment management. ESG goes beyond just caring about these environmental, social or governance factors. It is about good stewardship – supporting growth, promoting good decision-making and helping the companies that we carefully select to realise their full potential.

As growth investors, our challenge is to identify exceptional businesses with the potential to deliver outsized, long-term returns for our clients. Such businesses and the talents which build them are rare. Engagement with company management is central to our endeavour and we aim to support and encourage their ambitions while also taking the opportunity to learn from our conversations. Objectivity is vital, and where our views do not align with those of management we will provide challenge.

As long-term holders of companies, it is essential for us to consider the broad stakeholder economics of each of our investments. We believe that ESG factors must be considered carefully given their potential impact on the future health of a business measured through growth and returns. This is a nuanced and complex area which requires thoughtful company-by-company analysis rather than a 'one-size-fits-all' approach. Assessment of risks and opportunities forms an intrinsic part of our investment process.

Many ESG factors will have limited impact on a company's share price over the short term but can have a meaningful impact over Global Alpha's typical investment timeframe (five years plus). When thinking about risks, engaging with management teams remains our greatest source of insight. We favour management teams who are themselves acutely aware of future risks from megatrends and are prepared to innovate and invest for the future – often foregoing short-term

profitability in order to ensure that the company's growth remains sustainable as megatrends develop. As growth investors however, we also work hard to think about opportunities. We invest in disruptive, innovative companies that are able to use megatrends as an opportunity to reshape entire industries – generating significant earnings growth and shareholder returns in the process. Innovation of such scales and megatrends of such magnitude rarely develop over short-term time periods. When fully embracing the opportunities thrown up by developments in low-carbon technology, gene sequencing or growing levels of middle-class income, our patient long-term investment horizon remains our key competitive advantage.

The Global Alpha Team is responsible for monitoring ESG and stewardship factors for the Global Alpha Strategy. The team's fundamental, long-term investment philosophy fits hand-in-glove with our thoughtful approach to stewardship. We conduct our own proprietary research by assessing management teams, business models and operating practices. Assessing the quality of stewardship is therefore not a separate part of our process. It is intrinsically linked to how we invest.

Over the last decade, Baillie Gifford has built a dedicated ESG resource. One of these individuals is dedicated to the Global Alpha Team, working closely with the investment managers. In conjunction with the investment teams, the ESG resource conducts research and engagement and co-ordinates the proxy voting process for all our clients' holdings where we retain the voting rights. The primary responsibility of the ESG resource is highlighting ESG risks and opportunities to the different investment strategies, monitoring the companies we have holdings in, and challenging them when appropriate.

# Risk management

## Fundamental and portfolio risk

### An understanding of company fundamentals

We recognise that one of the most significant risks within the portfolio is the permanent loss of our clients' capital and we therefore place significant emphasis in our investment management process on understanding the fundamentals of the companies in which we invest, and of the industries in which they operate.

### Diversification

We ensure that we have a prudent level of diversification across stocks, industries and regions. Our investment guidelines, featured on page 9, are deliberately broad. This affords our investors the freedom to only invest where they see the very best opportunities for long-term value creation. Global Alpha is also diversified by growth type due to its three growth profiles.

### Holding size

Careful consideration is given to the holding size of individual investments. We have three broad groups of holding size: circa 0.5% holdings, circa 1% holdings and circa 2% holdings. Only the highest conviction stocks are normally holdings above circa 2% of the portfolio. Companies in which there is a greater degree of risk or uncertainty are typically circa 1% or less. The circa 0.5% holding size, our 'incubator' holdings, enable us to bring a wide range of stocks into the portfolio where we believe there to be a higher risk/reward profile.

## Valuations and correlation

Following the unusual environment in markets in 2022, we implemented two regular proprietary inputs into our risk framework.

1. Valuation heatmap. This tool uses valuation levels, growth expectations, and 30-plus years of global historic data on the distribution of returns outcomes to identify clusters of high valuations versus growth expectations. This enhances the context and challenge to investment teams, helping to improve decisions and disciplines for purchasing, holding, and selling positions.
2. Correlation and network analysis. Prioritising the importance of visual representation in our analysis of the data, this toolkit is used to prompt further discussion of portfolio balance and risk clusters.

## Risk categories

We consider exposures to different risk categories such as commodity prices or inflation – these risk concentrations are not directly captured by reference to an index or benchmark but are important influences on return in the portfolio.

## Trading risk

Our proprietary restrictions system is designed to prevent inappropriate transactions before dealing takes place. Systems also help to avoid excessive concentration of risk by identifying any stock, sector or country exposures that are outside internal guidelines. Segregated clients are sent an annual confirmation report to ensure the ongoing accuracy of their restrictions.

## Risk team monitoring

Our dedicated Investment Risk, Analytics and Research Department is entirely independent of the Global Alpha Team. The department uses a range of tools and measures to analyse the risk within portfolios. Importantly, our Investment Risk, Analytics and Research Department is also experienced in assessing the methodology and limitations of the different tools, and how to interpret their output in different market conditions.

Overall, we believe that these tools can add value to the investment monitoring process if used intelligently and pragmatically. The Investment Risk, Analytics and Research Department reports formally every quarter to the investment managers, client service team and our Equity Investment Risk Committee, which is chaired by an investment partner.

## Guidelines

<b>Benchmark</b>	MSCI All Country World Index (ACWI)
<b>Performance objective*</b>	To outperform the MSCI All Country World Index by 2–3% per annum over rolling five-year periods, gross of fees.
<b>Number of stocks (guideline range)</b>	70–120
<b>Stocks</b>	Maximum 6%, no minimum
<b>Growth profile</b>	Stop and think (with input from Investment Risk Committee) if: 45% in any one profile +/- 10% change in profile weight over rolling 12-month period
<b>Industries</b>	Minimum 15 industries Maximum 50% in top four
<b>Regions</b>	Maximum benchmark plus 20% No minimum

\* Before management fees. The performance target is aspirational and is not guaranteed. We do not use it to compile the portfolio and returns will vary. A single performance target 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.

# Competitive advantages

## People

Our people are fundamental to our success, and our partnership structure brings sustainable advantages in the recruitment and retention of staff.

Baillie Gifford's partnership structure has provided the foundation for an enviable record of corporate stability. It is also a significant factor in our success in attracting and retaining the very best investment talent. Our selection policy is based on intelligence rather than allegedly relevant specialisation, leading to recruitment of individuals from a wide range of academic disciplines. By training our analysts and investment managers in-house we manage to combine a common culture with an atmosphere that encourages vigorous debate. The firm's values and beliefs are clearly communicated and, coupled with low staff turnover and long service, the firm has been able to retain a team spirit while growing steadily in recent years.

## Investment research information

We believe that while access to information is important to an investment manager, how we use that information is more so.

We recognise that all investment institutions have access to the same information and that it is our analysis of this information which adds value for our clients. In addition, the Global Alpha Team gain insights into business models and the competitive advantages of companies by attending around 350 company meetings each year. Company meetings are key to our idea generation, research and stock selection process as they help us understand a company in greater depth. We are cognisant of the pitfalls of confirmation bias and market noise. Rather than being guided by the mood of the market, we think independently and make more informed stock picking decisions for the long-term benefit of our clients.

## Location

Having the majority of our decision makers in Edinburgh enables us to share views and ideas easily and efficiently. In addition to this, our common approach to research across departments helps provide an outstanding framework to allow us to select stocks effectively on a global basis.

# People



**Spencer Adair**

Spencer is an investment manager in the Global Alpha Team. He joined Baillie Gifford in 2000 and became a partner in 2013. He has been an investment manager in the Global Alpha Team since its inception in 2005 and Monks Investment Trust since 2015. He became an investment manager in the International Concentrated Growth Strategy in 2021. 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.



**Malcolm MacColl**

Malcolm is an investment manager in the Global Alpha Team. He has been involved in Global Alpha since the product's inception in 2005 and this is his sole portfolio responsibility. He joined Baillie Gifford in 1999 and spent his graduate rotation in the UK Small Cap Team before joining the North American Team. Malcolm managed the North American portion of wider Global portfolios while in the North American Team. He became a partner of the firm in 2011 and, in 2021, he became a managing partner with overall oversight for the investment department. Malcolm graduated MA in Economics and History in 1998 and MLitt in Economics, Politics and Management in 1999, both from the University of St Andrews.



**Helen Xiong**

Helen joined Baillie Gifford in 2008 and is a partner and investment manager on the Global Alpha Team. In addition to Global Alpha, Helen has spent time working on our Developed Asia, UK, North America, Emerging Markets and Global Equity Teams. Before coming to live and work in the UK, Helen lived in China, South Africa and Norway. She graduated BSc (Hons) in Economics from the University of Warwick in 2007 and MPhil in Economics from the University of Cambridge the following year.

# 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.

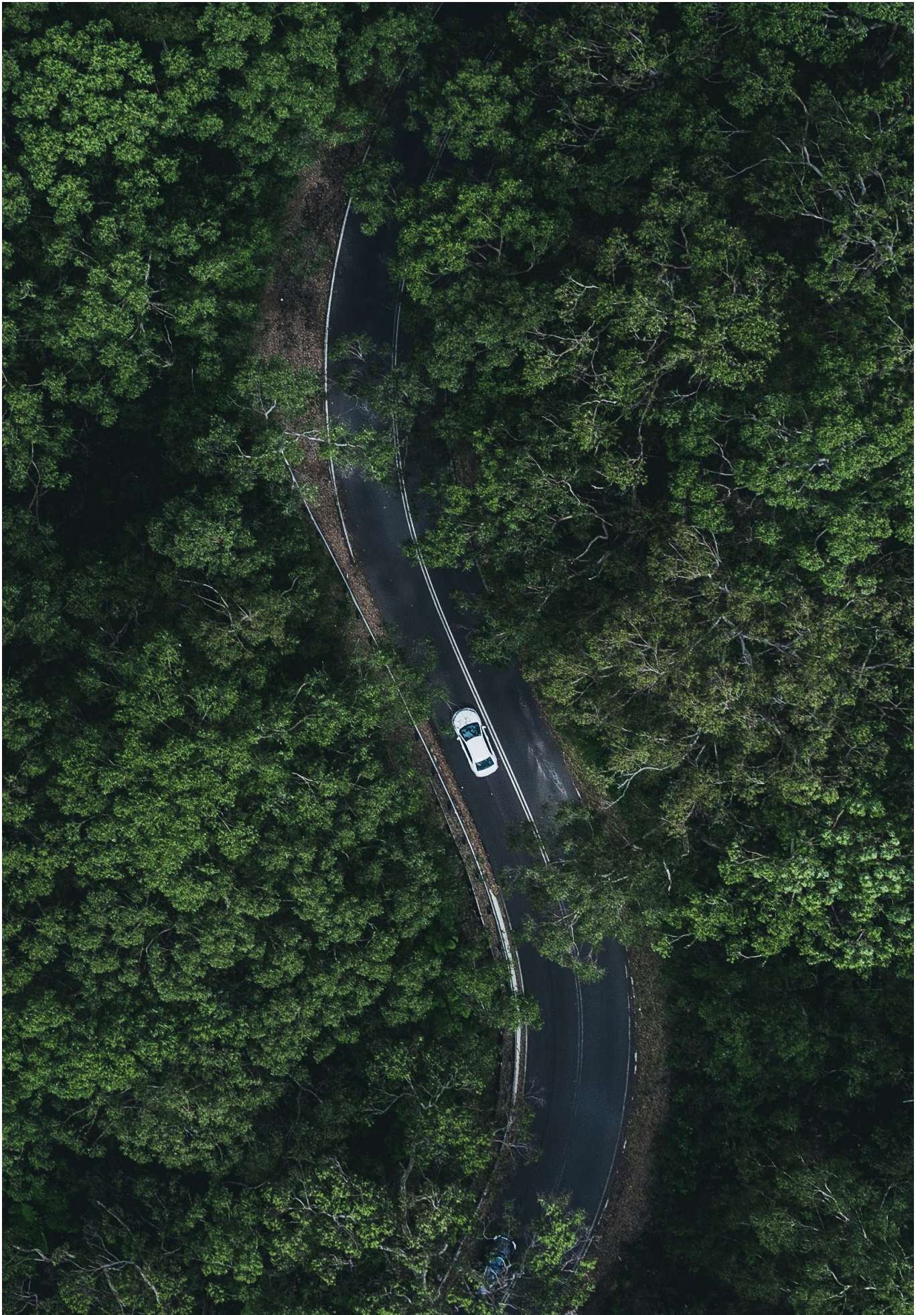
All of our partners work within the firm which provides a unique level of alignment between them as owners, and our clients. This is a key differentiator in comparison to a lot of our peers.

## 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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