

Baillie Gifford™

International Smaller Companies

Philosophy and Process



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Contents	Philosophy	02
	Process	03
	Risk management	07
	Competitive advantages	09
	Team	10
	Baillie Gifford	12

Philosophy

Insight

The small cap market is huge. There are close to 20,000 companies internationally with a market cap between \$100 million and \$2 billion. The majority of the universe is made up of low-quality companies that will never shed the small cap moniker. Our task is to seek out the exceptional companies within this universe that have the potential to grow into some of the world's leading companies of the future.

These companies are easily missed by peers within the industry, not only due to the sheer size of the universe, but also because these stocks are often too illiquid for larger strategies and are not covered by investment banks. Hunting out these gems provides us with informational insight, which is rare in investing.

Long term perspectives

Stock prices are wildly unpredictable in the short term. Ultimately, however, prices do reflect the earnings capability of a company. So when we find a company that has the potential to grow its profits significantly over time, we must invest with the patience that allows a good decision to prove its worth.

To this end, we ask clients to judge us over a five year plus time frame. In order to ensure alignment with clients, our investors' are remunerated on rolling five year performance, partly deferred over three years.

Collaboration

Covering such a large universe with a team of seven is a daunting task, and we couldn't manage it without the help of our colleagues across the investment floor.

Smaller companies often emerge in unusual places, for example when we're investigating the supply chain of a large cap company.

Our collegiate culture at Baillie Gifford means our large cap colleagues often meet smaller companies on research trips, pointing the most promising ones in our direction. Our collaboration provides benefits both ways. We seek to invest in companies that will grow into the mega caps of the future, eventually 'graduating' to our mainstream strategies. By investing earlier, we can build relationships with management teams, and partner with them for the long term.

Harnessing asymmetry

Taking advantage of the long-term relationship between company fundamentals and share price returns takes more patience than most market participants possess. We think critically about the long-term upside growth potential of stocks because the asymmetry of returns - the fact that you can only lose 100% of the money you put into a company but make many multiples - shows us that it is more valuable to spend more time on what might go right in an investment case rather than what might go wrong.

Process

We believe that our ability to successfully implement our philosophy rests on the accumulation of many factors. At the heart of our process rests the stability of Baillie Gifford's partnership structure that has been in place for over 115 years. This stability supports our collaborative approach to investing.

We believe that we will best serve our clients by building a portfolio through a process that mixes individual creativity and conviction with the perspective and support of a team, and the backing of our partnership.

Idea generation

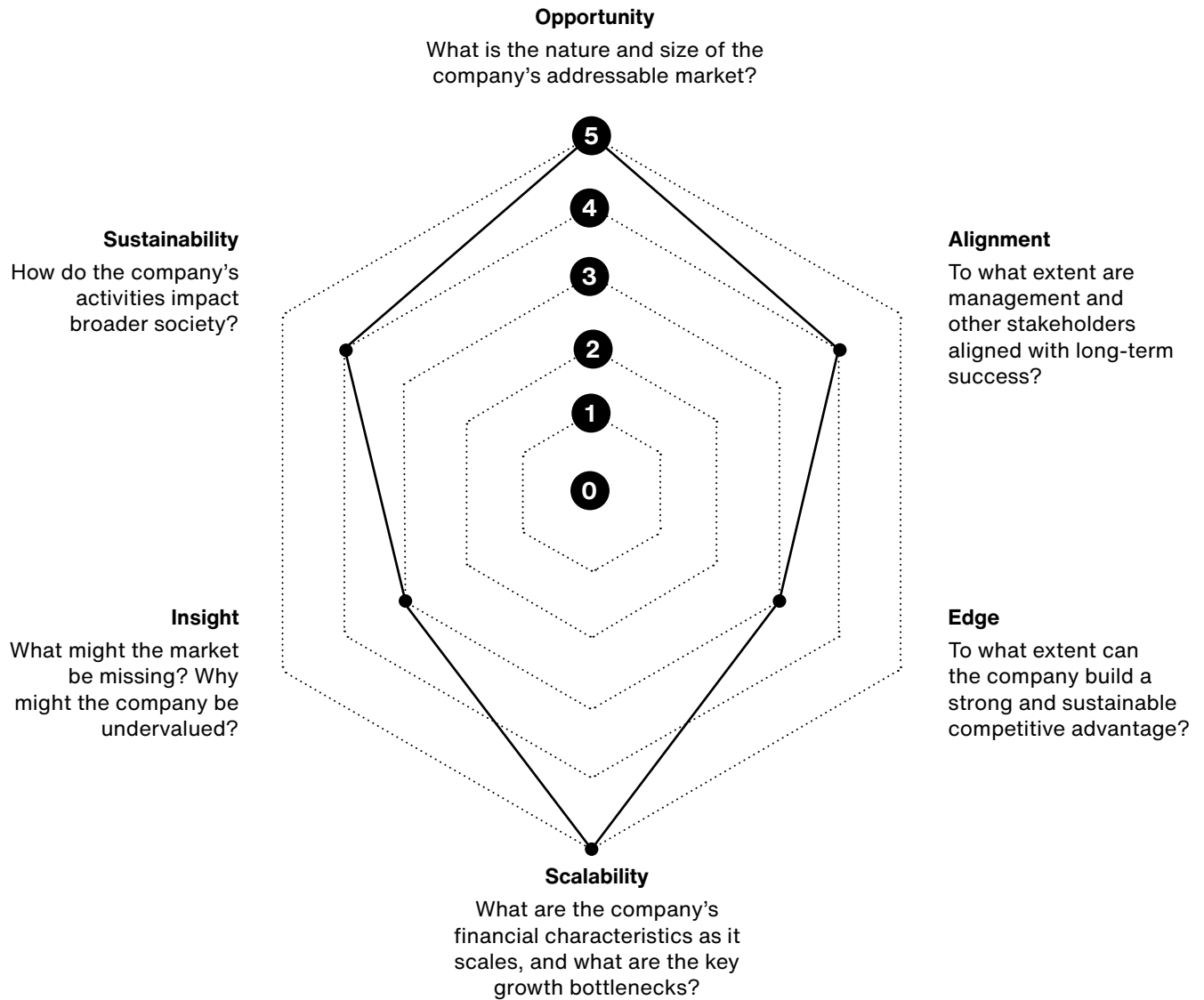
Given our philosophy, we ignore the index and search only for the relatively rare positive outliers within our international smaller companies universe. Although we have no specific industry or sector allocations, we tend to focus our attention on those areas that are undergoing the most intense innovation or disruption. To unearth the exceptional businesses at the heart of this, we rely upon our investors' individual curiosity combined with the diversity of information sources available to them and rigorous debate in weekly stock discussions. Our information sources include the shared insights from the other circa 170 Baillie Gifford investors, sponsored academic research, and independent non-financial researchers.

Assessing potential

Once we've unearthed a prospect, we then rigorously research and assess its potential. Proprietary fundamental analysis forms the basis of our investment decisions. We do not utilize quantitative screens or use price targets because we would miss some of our highest quality and best performing companies. Company meetings, both in our offices and externally, are an integral part of our investment process.

Potentially exceptional companies can come in many forms but are all likely to possess a few core attributes. We assess these attributes through our consistent research framework, which we call our "radar".

Radar framework



Discussion and debate

We believe that incorporating the diverse perspectives of others leads to better decisions. The perfect company does not exist so a robust collective assessment of each investment candidate, aided by our framework, is a vital element of our process. This is continual but coalesces at a formal weekly stock discussion.

Decision-making

Given our search for positive outliers, we believe it is vital to avoid consensus decision-making and instead back individual enthusiasm. The principle to be able to back uncomfortable ideas is important given the asymmetrical nature of equity returns.

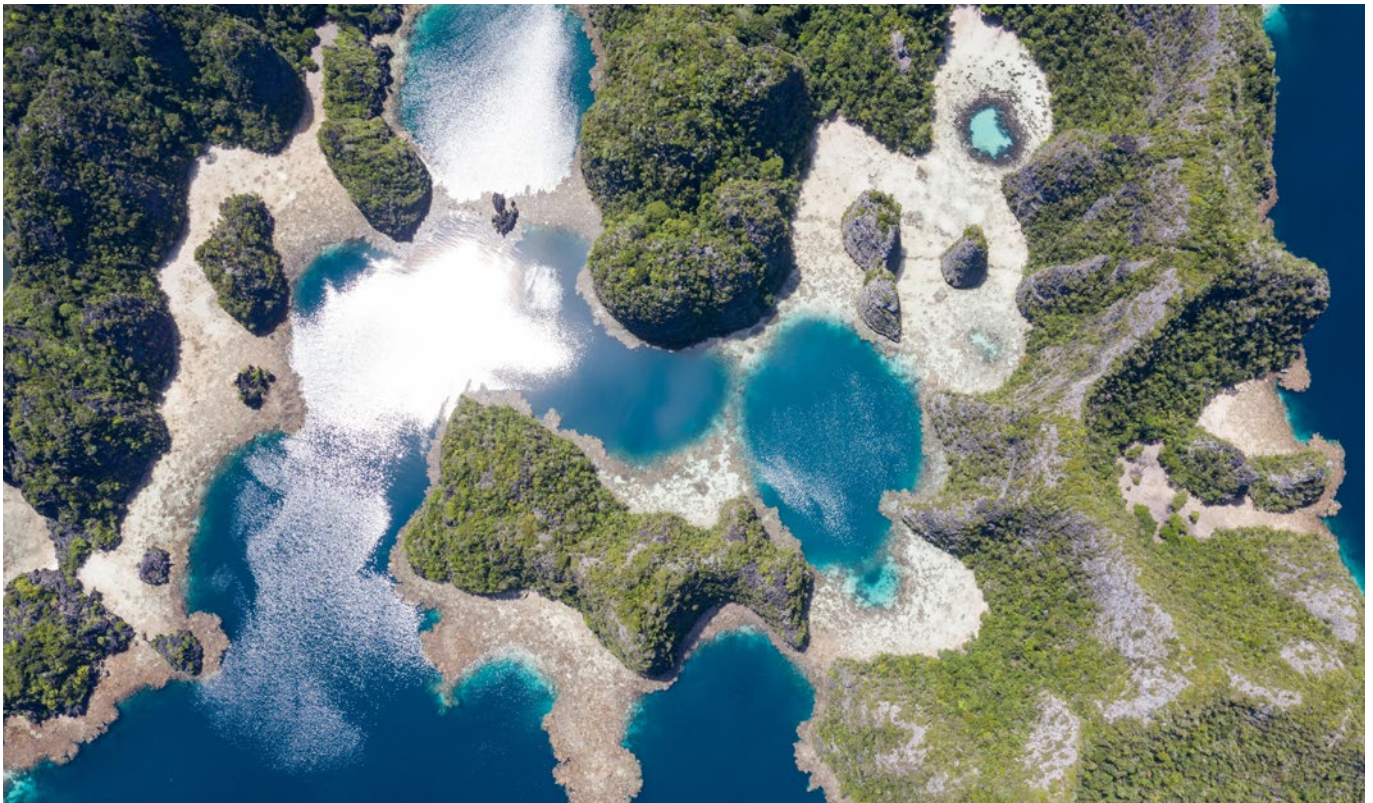
In practice, a stock will go into the portfolio when any one of the three investment managers has built sufficient conviction. However, all new ideas must:

1. Have a note written by a member of the team containing radar comments and scores, and
2. Be discussed by the team in a stock discussion.

Appropriate sizing depends on an assessment of the relative risk and reward of the idea, led by the proposer and informed by discussions with the team. Any ideas that did not quite make the grade initially will be continually monitored against our framework through ongoing research and engagement with the company.

The three decision makers work closely together on one desk which ensures that the team is nimble and communicate clearly with regard to portfolio changes. In addition to informal discussions and formal weekly stock discussions, the team meet monthly for a portfolio review.

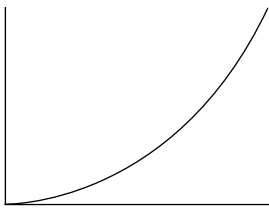
Consistent with our philosophy, we will hold and support businesses through the inevitable short-term twists and turns of development. However, a material change to any of the factors of the framework leads to a re-examination of the investment case and may lead to us selling or adding to our position.



Portfolio

The output of this clear and consistent process is the portfolio. Potentially great companies will come in a wide variety of forms as they address a large market opportunity in different ways. We know that companies grow in different ways too, and we therefore categorize the portfolio across four flavors of growth:

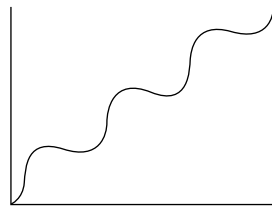
Rapid



Pace of growth is underestimated

Example: capital-light online platforms which can benefit from network effects and can sell rapidly and profitably

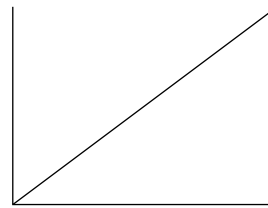
Cyclical



Change is underestimated

Example: companies exposed to product cycles, such as semiconductor companies supplying components for consumer electronics products

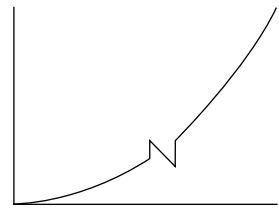
Enduring



Durability of growth is underestimated

Example: niche industrial engineering businesses with strong customer relationships and technology

Transformational



Impact of growth is underestimated

Example: businesses depending on a specific catalyst, such as a biotech business receiving approval for one of its candidates

The operational progress of holdings and overall shape of the portfolio are formally reviewed and discussed by the investment team at the monthly portfolio review meeting. Once in the portfolio, the manager who proposed the holding will be primarily responsible for monitoring its progress. Any future trading decisions will be discussed with the investment team, but the proposer is likely to be the one to make the decision. In general, given our long-term approach, once we have invested in a company, we attempt not to trade around the edges unnecessarily.

Risk management

Portfolio guidelines

Number of holdings	Minimum 75
Time horizon	5-10 years
Market Cap	Approximately \$2 billion or lower at time of purchase. No additions above \$5 billion. Complete sale at \$10 billion.

As active managers, we believe we are employed to take risks; the key is ensuring that these risks are intended, proportional, and potentially well-rewarded.

Volatility versus risk

We don't believe that volatility around an index represents a risk: indeed some of our most successful holdings have been our most volatile. Therefore, we separate volatility from risk. The index is only there as a guide; therefore we accept and expect volatility and see it as part of the opportunity. Moreover, risk cannot be defined by one number. As long-term fundamental investors, we view "real" risk as the permanent loss of capital.

Moreover, as we aim to embrace the benefits of asymmetry, we must accept that, however uncomfortable it may be, some companies will fail. This is inevitable, so it is crucial to remain focused on the upside, which can more than compensate.

The importance of fundamental research

Ensuring the rigor of the research process is the initial layer of risk mitigation in the portfolio. Thorough fundamental company analysis underpins all investment decisions.

This process hinges on insights from our fundamental research and our process of constantly questioning and challenging the investment case both before and after purchase. A key risk for this strategy would be poor analysis of the fundamentals.

Portfolio diversification

We believe the most powerful risk mitigation measure is to hold a diversified portfolio of stocks, with at least 75 companies exposed to different economic forces. We further control risk through portfolio construction and pragmatic levels of sector and country diversification. This guards against any large unintended exposures that have arisen as a result of our bottom-up stock picking. Our diversification guidelines are presented in the following table:

Diversification guidelines

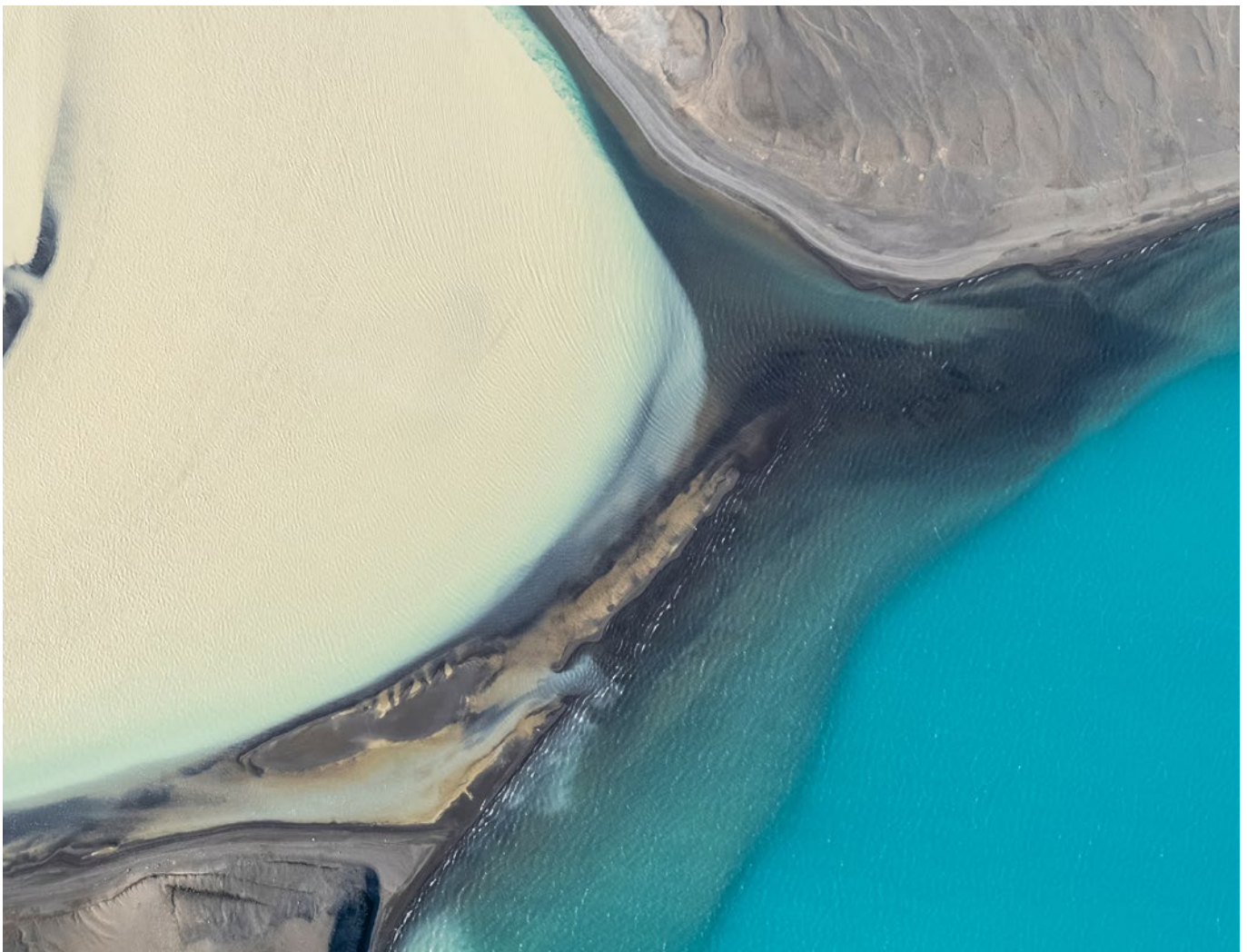
Minimum sectors	6
Minimum countries	6
Maximum holding size	8%

Broader support from the firm

We have a dedicated and independent Investment Risk, Analytics and Research Department, which uses a range of tools and systems to monitor, analyze and report risk within our strategies. These include an external risk model provided by FIS APT, Style Analytics and FactSet. The department is experienced in using these models and has a detailed understanding of their methodology and their limitations. It is our view that these tools do add value to the risk monitoring process if used pragmatically. Further analysis, pushing beyond the use of risk models, is conducted regularly by the department, providing a broader view of exposures and key themes within portfolios, analyses of portfolio construction and diversification levels, and stand-alone pieces of research on a variety of topics of interest and value to investment managers.

We rely on oversight and continual engagement with the department, including a formal bi-annual risk reporting process and the supervision of the Equity Investment Risk Committee.

The department produce quarterly risk reports that include, amongst other analyses, an attribution of predicted risk highlighting the key sources of relative risk in portfolios. Risk-related issues or concerns are discussed with the IRC on a quarterly basis and appropriate actions are taken if necessary. Ultimately, we believe the unlimited liability partnership structure of Baillie Gifford drives a considered approach to risk and provides powerful alignment with our clients.



Competitive advantages

We believe our edge is the combination of several key factors. Together, these factors allow us to think differently to the market and deliver our objective of outperforming the benchmark over the long term.

These factors are outlined below:

Cognitive diversity

The team is comprised of seven individuals with different academic backgrounds, including a physicist, a historian, and a development economist amongst others. This diversity of thought leads to different curiosities among the team. This results in interesting and unique stock ideas as well as more thought-provoking debates at the team's weekly stock discussion.

Alignment of interests

We are genuinely long-term in our investment approach. Many managers claim this; however, few actually pay their investors based on five-year rolling relative performance or exhibit portfolio turnover consistent with a truly long-term approach. The stability of our firm and team makes this possible. Knowing that our investors often spend their entire careers at Baillie Gifford brings a level of accountability and commitment to the task at hand that few can match.

Research

All members of the team, from the decision makers to the newest graduate recruit, are first and foremost analysts. All Baillie Gifford equity investors share a common research library containing research that goes back decades. This provides our investors with a critical mass of intellectual capital and proprietary research, as well as a wide array of different experiences and perspectives. In addition, our external perspectives tend to come from a

range of sources ranging from industry specialists and academics to ex-journalists, rather than simply following sell-side recommendations. We deliberately cast the net very wide in the belief that a wide range of inputs should lead to differentiated outputs.

We strongly believe our advantage lies in the way in which we think about the information that is available rather than the mere possession of it. We place great importance on producing differentiated, proprietary research focused on the long-term outlook for companies.

We encourage our investors to be diligent and creative when considering investment research inputs. This long-term approach creates a distinctive edge. Over the long term, evidence shows us that share price returns follow growth in earnings, but both patience and rigorous analysis are key to being able to exploit this.

Company relationships

One of the most important sources of insight for us is the relationships we have been able to build with companies directly as long-term investors. We have an interest in their cultures and competitive advantages. Engaging with companies in this way is a crucial part of our process. A growing number of companies notice if you are committed, long-term shareholders, irrespective of their size and success.

Our emphasis on the long term means that we spend much more time understanding a founder's vision and their strategy for the company rather than analyzing quarterly financial results. We believe that our willingness to factor durability and longevity into our analysis of the prospects for companies and to recognize and embrace uncertainty, sets us apart from most market participants. It helps us to build constructive and supportive relationships with management. It is also often a significant factor in the difference of view that we have on the valuation of individual companies compared with the broader market.

Team

The strategy is managed by a team of three investment managers who are supported by four investment analysts. Two of the investment managers and one of the investment analysts have been involved in the strategy since its inception in December 2018.

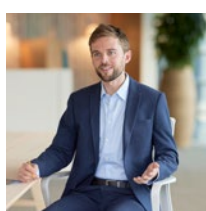
The investment team takes collective responsibility for the portfolio as well as the overall development of the strategy. All team members write research and contribute to the management of the portfolio. The analysts feed in ideas, participate in weekly stock discussions as well as monthly portfolio review meetings, but do not have decision-making responsibilities.

Investment managers



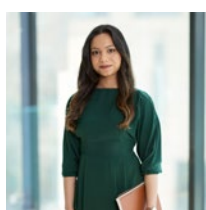
Brian Lum
Lead Investment
Manager

Brian is head of the Smaller Companies Team and lead investment manager of the International Smaller Companies Strategy. He has been a member of the International Growth Portfolio Construction Group since 2015. Brian is deputy manager of the Shin Nippon Investment Trust and co-manager of Japanese Smaller Companies Strategy. Brian joined Baillie Gifford in 2006. He is a CFA Charterholder and graduated with an MSc and BA (Hons) in Physics from the University of Cambridge in 2006.



Charlie Broughton
Deputy Investment
Manager

Charlie is deputy investment manager of the International Smaller Companies Strategy and co-manager of the Pan European Smaller Companies Strategy. He joined Baillie Gifford in 2014. He is a CFA Charterholder and graduated MA (Hons) in Medieval History and Archaeology from the University of St Andrews in 2013.



Remya Nair
Deputy Investment
Manager

Remya is deputy investment manager of the International Smaller Companies Strategy and co-manager of the Pan European Smaller Companies Strategy. She joined Baillie Gifford in 2018. She graduated MSc (Hons) in International Development Management in 2018 and BSc (Dual Hons) in Social Policy and Sociology in 2017 from the London School of Economics.

Investment analysts



Praveen Kumar
Investment Analyst
(Japan)

Praveen is an investment manager in the Japanese Equities Team, He is co-manager of the Japanese Smaller Companies Strategy, the Shin Nippon Investment Trust, Developed Asia Pacific Strategy and deputy manager of the Baillie Gifford Japan Trust. He is also a founder and member of the International Smaller Companies Team. He joined Baillie Gifford in 2008 and previously worked for FKI Logistex. Praveen graduated Beng in Computer Science from Bangalore University in 2001, and completed an MNB from the University of Cambridge in 2008.



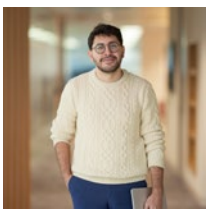
Tom Fenton
Investment Analyst

Tom is an investment analyst in the Smaller Companies Team. He joined Baillie Gifford in 2017 and previously worked in the Discovery, Japan, Global Income Growth and Multi Asset teams. Tom graduated BA (Hons) in History from the University of Durham in 2017.



August Thomas
Investment Analyst

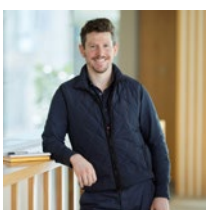
August is an investment analyst in the International Smaller Companies Team. She joined Baillie Gifford in 2022 and has previously worked in the Long Term Global Growth and Sustainable Growth teams. Prior to Baillie Gifford August worked as Assistant Producer of a documentary TV series, a travel writer, and in online education. She earned an MA in Art History from Bogazici University, an MSc. in Creative Writing from the University of Edinburgh and simultaneous BAs from the University of Massachusetts-Amherst in Linguistics and the Ancient World.



Eduardo Enamorado Ibarra
Investment Analyst

Eduardo is an investment analyst in the International Smaller Companies Team. He joined Baillie Gifford in 2023 and previously worked in our UK Equity Team. Eduardo graduated LLB Bachelor of Laws (Hons) from Durham University as a Laidlaw Leadership and Research scholar.

ESG analyst



Tom Clark
ESG Analyst

Tom is an ESG analyst in the International Alpha and International Smaller Companies teams. Prior to joining Baillie Gifford in 2022, Tom was an equity research analyst in the UK Midcap and Business Services teams at Barclays Investment bank. He joined Barclays on the military veterans' internship programme in 2018, before which he served as a commissioned officer in the British Army. Tom graduated with a BA in History from Oxford University.

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 over 100 years.

A core principle we have always upheld is prioritizing 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 recognized as a trusted, long-term partner, who can be relied on to always give honest and objective advice.

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 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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