

Baillie Gifford UK Equity Alpha Fund

30 September 2024

About Baillie Gifford

Philosophy	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
Partnership	100% owned by 58 partners with average 20 years' service Ownership aligns our interests with those of our clients Enables us to take a thoughtful, long-term view in all that we do Stability, quality and consistency

Investment Proposition

The Fund adopts a long-term, low turnover investment approach and aims to hold between 30-50 high quality, growth companies which are principally listed in the UK and are capable of growing their earnings faster than the market average. It is a concentrated portfolio of our best ideas, which is highly differentiated from the benchmark, the FTSE All-Share Index.

Fund Facts

Fund Launch Date	07 April 1995
Fund Size	£458.8m
IA Sector	UK All Companies
Active Share	89%*
Current Annual Turnover	7%
Current number of stocks	39
Stocks (guideline range)	30-50

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

Fund Manager

Name	Years' Experience
Milena Mileva*	15

*Partner

Fund Objective

To outperform (after deduction of costs) the FTSE All-Share Index by at least 2% per annum over rolling five-year periods.

The manager believes this is an appropriate target given the investment policy of the Fund and the approach taken by the manager when investing. In addition, the manager believes an appropriate performance comparison for this Fund is the Investment Association UK All Companies Sector.

There is no guarantee that this objective will be achieved over any time period and actual investment returns may differ from this objective, particularly over shorter time periods.

Periodic Performance

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)
Class B-Acc (%)	1.9	8.9	-5.4	-0.9
Index (%)*	2.3	13.4	7.4	5.7
Target (%)**	2.8	15.6	9.6	7.9
Sector Average (%)***	2.3	14.2	2.9	4.7

Source: FE, Revolution, FTSE. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

Baillie Gifford operates a single swinging price for the Fund and, therefore, may apply a dilution adjustment to the price to protect long-term investors from the costs associated with buying and selling underlying investments that result from other investors joining or leaving the Fund.

This adjustment will affect relative performance, either positively or negatively.

*FTSE All-Share Index.

**FTSE All-Share Index plus at least 2% per annum over rolling five-year periods.

***IA UK All Companies Sector.

Discrete Performance

	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Class B-Acc (%)	6.4	6.0	-31.9	14.3	8.9
Index (%)*	-16.6	27.9	-4.0	13.8	13.4
Target (%)**	-14.9	30.4	-2.1	16.1	15.7
Sector Average (%)***	-12.8	32.4	-15.3	12.8	14.2

Source: FE, Revolution, FTSE. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

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***IA UK All Companies Sector.

Market environment

The UK economy began to show promising signs of recovery throughout the summer months. With inflation pressures easing, the Bank of England's Monetary Policy Committee voted narrowly to lower interest rates for the first time in over four years, hoping to boost further economic growth.

July also saw a shift in the political landscape. The Labour Party's landslide victory in the General Election resulted in a new government taking office in Downing Street. In its initial weeks in power, the government announced a series of new policies to revitalise the economy. Some of that optimism has faded following rather downbeat statements from the government regarding the problems they've inherited and speculation about the scale of tax rises in the upcoming budget. It is still early days, and a lot remains to be seen on what shape the new government's policies will take.

Perhaps of more relevance for the companies in the portfolio is, that after several years of disruption, the last few months have shown tentative signs that share prices may be beginning to follow fundamentals again. Interestingly, we've also seen a pickup in merger and takeover activity in the quarter with agreed bids for fund holdings Hargreaves Lansdown and Exscientia and a rejected bid for Rightmove. This uptick in activity may reflect the attractive valuations of UK businesses, but it also risks us being forced to sell businesses with good long-term growth prospects.

Performance

The portfolio delivered a positive return but trailed the index over the quarter. AJ Bell, Auto Trader, and Rightmove were among the top contributors to performance.

Regular readers of this letter will be well aware that our investment philosophy anchors on a core belief that share prices follow fundamentals over meaningful time periods and that sustainable growth in corporate profits is the most reliable driver of investment returns. In the short term, market sentiment can swing, sometimes violently, and in unpredictable ways. However, over the longer term, the companies that deliver sustainable above-average growth in earnings are rewarded with superior share price performance. In our quarterly commentaries over the last couple of years, we have shared our assessment of the pleasing operational and strategic progress that the Auto Trader and AJ Bell have been demonstrating and the excellent growth they have continued to deliver, even in what have been challenging times for their underlying markets. This was why, in 2022 (in the case of Auto Trader) and 2023 (in the case of AJ Bell), we made meaningful additions to both holdings when valuations

had pulled back significantly as the market fretted over shorter-term cyclicalities. At the same time, our conviction in the long-term prospects of both companies had been strengthening, aided by our extensive due diligence visits. Over this most recent period, we saw share prices starting to reflect some of those attractive business fundamentals and good operational progress. We would never claim to have any skill in short-term market timing – this is quite simply not our forte! What we do emphasise, though, is that our willingness to embrace short-term volatility, in the context of what we hope is well-founded and robust conviction in outsized long-term corporate success, is a key advantage of our investment approach. We believe this will enable us to repay the patience and support of our clients during what has been a difficult period for our investment performance.

As noted above, the leading web-based property portal, Rightmove, was subject to a takeover bid by Australian REA Group. Rightmove rejected four bids from REA, the final valuing the company at £6.2 billion, representing a c40% premium to Rightmove's share price before the initial bid. UK takeover rules meant REA had until the end of September to make a formal offer or walk away. We were pleased that the board firmly rejected the bid approach as not reflecting the value of the business. After being rebuffed four times, REA group decided to abandon the takeover bid.

Having enjoyed strong operational and share price performance over the last couple of years, our holding in 4imprint was a detractor to performance. Management struck a more cautious note in their interim results, highlighting that a challenging macroeconomic backdrop has made new customer acquisition more difficult. However, the company's existing customer base showed healthy growth, and 4imprint still delivered 10% profit growth in this subdued market environment, maintaining marked outperformance relative to the underlying promotional goods industry. We believe that the opportunity to gain share from less efficient competitors in this large and fragmented market is highly compelling, and 4imprint's competitive advantages have strengthened since the end of the pandemic.

The other notable detractor from performance was the software consulting business Kainos. As we have shared in recent letters, this is a holding we have been adding to. It has faced short-term headwinds such as UK election uncertainty delaying the mobilisation of digital transformation projects for public sector clients, longer sales cycles for corporate customers in some markets, and pricing pressure – at the margin – from cheaper competitors in its Workday Services business. To put this in context, this means profits are expected to be roughly flat year-on-year, and the company has a very strong balance sheet. Admittedly, this short-term

profit outturn is quite different from the robust profit growth Kainos has delivered historically. However, we don't think this slowdown reflects a change in the long-term growth which the company will be able to deliver. Recent announcements, such as the deepening of Kainos's strategic partnership with Workday, show there continues to be a wealth of exciting opportunities for the company to exploit in the medium term. In the meantime, the shares are near their lowest valuation level since the company listed.

with significant market opportunities, robust financial positions and the cultural adaptability needed for success. We remain enthusiastic about their prospects and are confident they are well-positioned to deliver superior returns over the long term.

Finally, shares in the premium mixer drinks manufacturer Fevertree were down over the period. In recent results, management lowered sales forecasts, citing a challenging macroeconomic backdrop and poor summer weather dampening sales. Despite these headwinds, the company continues to grow its market share at home and abroad by successfully innovating in the premium mixer category. It has also been slowly rebuilding its margins following the extreme volatility in some key cost inputs (glass prices and transatlantic freight rates) over the last couple of years. We are looking to build further conviction in the medium-term trajectory for Fevertree's margins and their ability to continue to scale internationally, which is reflected in a relatively modest position size.

Notable transactions

Portfolio turnover remained low over the quarter. We continue to actively evaluate several new ideas to gain conviction that they have the potential to add to the quality and growth prospects of the portfolio over the next five years and beyond.

We reduced the fund's holding in Hargreaves Lansdown following a take-over approach for the company. We also sold the small holding in IP Group, which provides funding to universities to help them commercialise promising intellectual property (IP), mainly in the life sciences area. Like other listed venture capital firms (such as Molten Ventures, which is also in the portfolio), the shares of IP Group have been affected by the rise in interest rates in recent years and the changes in the environment for earlier-stage technology companies. However, in the case of IP Group, we have been disappointed with the company's longer-term track record and the growth in net asset value per share. In addition, IP Group's largest and most successful single investment - Oxford Nanopore - is now a listed company in which the fund invests directly.

Market Outlook

While uncertainties will always exist, our patient, long-term approach is critical to our ability to add value for investors. We focus on finding companies that will deliver superior earnings growth and hold them long enough for their unique strengths to emerge in share prices. Looking ahead, the Fund comprises companies

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2024

Stock Name	Contribution (%)
Shell PLC	1.2
AJ Bell	0.6
BP	0.6
AstraZeneca	0.6
Auto Trader	0.5
Genus	0.5
Baltic Classifieds Group	0.4
Experian	0.3
St. James's Place	0.3
Rightmove	0.3
4imprint	-1.2
Kainos	-0.8
Softcat	-0.6
Unilever	-0.4
Fevertree Drinks	-0.4
Wizz Air	-0.4
Spirax-Sarco	-0.3
National Grid	-0.3
British American Tobacco	-0.2
Burberry	-0.2

One Year to 30 September 2024

Stock Name	Contribution (%)
Auto Trader	1.6
Experian	1.6
AJ Bell	1.6
BP	1.3
Shell PLC	1.1
Hargreaves Lansdown	0.6
Baltic Classifieds Group	0.6
Reckitt Benckiser	0.5
Glencore	0.5
AstraZeneca	0.4
Burberry	-1.5
Kainos	-1.3
4imprint	-1.0
Rolls-Royce	-0.9
Spirax-Sarco	-0.8
Fevertree Drinks	-0.7
Wise	-0.7
Games Workshop	-0.6
Ocado	-0.6
FDM	-0.5

Source: Revolution, FTSE. Baillie Gifford UK Equity Alpha Fund relative to FTSE All-Share Index.

Some stocks may only have been held for part of the period.

All attribution figures are calculated gross of fees, relative to the Index from stock level up, based on closing prices.

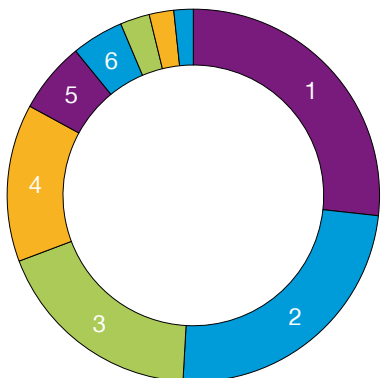
As Attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio. See the List of Holdings section of this report for the stocks held.

There were no new purchases during the period.

Complete Sales

Stock Name	Transaction Rationale
IP Group	IP Group provides funding to universities to help them commercialise promising intellectual property (IP), mainly in the life sciences area. Like other listed venture capital firms, the shares of IP Group have been affected by the rise in interest rates in recent years and the changes in the environment for earlier-stage technology companies. However, in the case of IP Group, we have been disappointed with the company's longer-term track record and the growth in net asset value per share. In addition, IP Group's largest and most successful single investment - Oxford Nanopore - is now a separate listed company. We therefore decided to sell the holding.

Sector Exposure



		%
1	Industrials	26.7
2	Consumer Discretionary	24.1
3	Technology	18.4
4	Financials	13.7
5	Health Care	6.2
6	Consumer Staples	4.5
7	Real Estate	2.6
8	Basic Materials	2.1
9	Cash	1.7

As well as cash in the bank, the cash balance includes unsettled cash flows arising from both shareholder flows and outstanding trades. Therefore, a negative balance may arise from timing differences between shareholder flows and security trading, and does not necessarily represent a bank overdraft.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
Experian	Credit checking and data analytics company	8.5
Games Workshop	Manufacturer and retailer of table top wargames and miniature figurines	8.4
Auto Trader	Advertising portal for second hand cars in the UK	7.6
4imprint	Promotional products manufacturer and distributor	6.2
AJ Bell	One of the UK's largest online investment platforms	4.7
Wise	Online provider of cross-border money transfer services	4.1
Ashtead	International industrial and construction equipment rental company	3.7
Renishaw	World leading metrology company	3.5
Kainos	IT provider of digital services and Workday	3.3
Softcat	Information technology (IT) reseller and IT infrastructure solutions provider	3.0
Total		52.9

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	14	Companies	10	Companies	2
Resolutions	255	Resolutions	10	Resolutions	3

Company Engagement

Engagement Type	Company
Environmental	Experian plc, Rio Tinto Group, Wizz Air Holdings Plc
Social	Experian plc
Governance	Baltic Classifieds Group, Burberry Group plc, Experian plc, Exscientia plc, FD Technologies plc, Kainos Group plc, Molten Ventures Plc, Oxford Instruments plc, Renishaw plc, The Weir Group PLC, Wizz Air Holdings Plc
Strategy	Oxford Nanopore Technologies plc

For further details on company engagement please contact us. You can also find further information on how we integrate environmental, social and governance (ESG) matters into our investment approach, [here](#).

Asset Name	Fund %
Experian	8.5
Games Workshop	8.4
Auto Trader	7.6
4imprint	6.2
AJ Bell	4.7
Wise	4.1
Ashtead	3.7
Renishaw	3.5
Kainos	3.3
Softcat	3.0
Howden Joinery	2.9
Genus	2.9
Moonpig Group	2.8
Weir	2.6
Rightmove	2.6
Diageo	2.4
Trainline	2.2
Baltic Classifieds Group	2.2
Spirax Sarco	2.2
Rio Tinto	2.1
Standard Chartered	2.0
Hikma Pharmaceuticals	2.0
FD Technologies	1.9
Lancashire Holdings	1.7
Prudential	1.5
St. James's Place	1.4
Hargreaves Lansdown	1.3
Fevertree Drinks	1.2
FDM	1.2
Molten Ventures	1.1
Oxford Instruments	1.0
Burberry	0.9
Ocado	0.9
Wizz Air	0.7
Oxford Nanopore Tech	0.4
Raspberry Pi Ltd Sub	0.4
Exscientia plc	0.3
Creo Medical	0.3
PureTech Health	0.3
Cash	1.7
Total	100.0

Please note the fund information contained within this document is proprietary information and should be maintained as such and not disseminated. The content is intended for information purposes only and should not be disclosed to other third parties or used for the purposes of market timing or seeking to gain an unfair advantage.

Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Acc	07 April 1995	GB0005858195	0585819	0.47	0.50
Class B-Inc	07 April 1995	GB0005857908	0585790	0.47	0.50

The table displays the primary shares classes. Other share classes may be available for those investors who have a separate arrangement. Charges will reduce the value of your investment. Please refer to the Prospectus and Key Investor Information Document for further details. The Ongoing Charges Figure ('OCF') may be lower than previous declarations as a result of a revision to how the indirect fees associated with closed-ended investment companies need to be shown. This does not necessarily mean that fund expenses have gone down rather that we have reverted to how they have been calculated until 30 June 2022 to reflect the revised Investment Association's Guidance on Disclosure of Fund Charges and Costs (July 2020, updated January 2022, revised November 2023). A more detailed Costs and Charges disclosure is available upon request.

FTSE Russell

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Additional Geographical Location Information

Israel: This Report, as well as investment in the Fund described herein, is directed at and intended for Investors that fall within at least one category in each of: (1) the First Schedule of the Israeli Securities Law, 1968 (“Sophisticated Investors”); and (2) the First Schedule of the Investment Advice Law (“Qualified Clients”).

The Fund’s share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the Fund is priced.

As with any investment, the clients’ capital is at risk. Past performance is not a guide to future returns.

Throughout the report all figures are rounded, so any totals may not sum. Not all stocks mentioned may be held by the portfolio.

All information as at 30 September 2024 and source is Baillie Gifford & Co unless otherwise stated.