

Baillie Gifford American

North America

Introduction

This is a bottom-up, high conviction fund with a performance target of +2% per annum above the benchmark (S&P 500 Composite Index) over 3 to 5 years. Over shorter periods performance can vary widely from this as the fund is not managed with tracking error constraints. This fund aims to deliver outperformance by identifying exceptional growth businesses and holding them for long enough that the advantages of their business models and the strength of their culture become the dominant drivers of the stock price. The fund typically holds between 30 and 50 companies in the US and is not constrained by target allocations to particular sectors, but they do abide by broad guidelines to provide pragmatic diversification. The maximum absolute holding of any stock in the portfolio is 10%.



[Click here to read the Baillie Gifford approach to ESG investing.](#)

Why RSMR Rate this Fund

- Baillie Gifford is a global leader in growth stock investing
- Fund looks to exploit the asymmetry of returns available in equities
- Long-Term Global Growth Team have excellent record over long time periods
- Team looks to invest in companies with exceptional culture, vision and market opportunity
- Very high active share and focus on identifying outliers makes fund an ideal complement to passives

Fund Process

The investment process begins with narrowing down the investible universe of over 1,700 US companies with a market capitalisation in excess of \$1.5bn. The managers seek companies that fit with their investment philosophy, particularly those with sustainable growth potential over the long term. They target companies with a high probability of achieving a minimum of 2.5 times upside potential over a five-year period. Internally generated models may be used to forecast future earnings growth and to test the sensitivity of differing assumptions. These criteria narrow down the opportunity set to approximately 350 companies from which they then construct a portfolio of no more than 50 names.

The majority of research carried out at Baillie Gifford is conducted internally. Research is performed in a variety of ways from desk-based analysis to company meetings and research trips, with the latter two particularly important due to the focus on understanding a company's culture. Baillie Gifford also use 'inquisitive researchers' or experts who are employed to undertake specific projects surrounding a particular topic or theme. The team use limited external sources of information. The team are looking for good ideas, rather than having blanket analyst coverage of the market. The research is assimilated using a nine-question framework which seeks to identify companies with a 'edge' and large market opportunity. Companies where founding-managers are prevalent or employees with considerable wealth tied up in a business are looked upon favourably as a strong future vision is often required for these fast-growing companies.

The fund holds a diverse set of growth companies but there is an overriding theme of transformational change within the businesses held. The team try to take advantage of the asymmetry of returns that pervades markets, and holding sizes reflect the potential upside of an investment and the likelihood of it being realised. Individual enthusiasm is backed rather than seeking consensus or establishing a majority vote. Where a stock has been bought as a result of minority enthusiasm, the original backers decide if and when that stock is sold. The team do not top up on losing positions as the process looks to maximise potential losses to 100% of an initial investment to take advantage of the asymmetry of equity returns where upside is potentially uncapped.

Evaluation

The concentrated high-growth nature of the fund means that the performance generally comes at the expense of a higher volatility level than the sector average or wider market. Performance over the longer term is driven by stock selection. The top ten names typically comprise up around 50% of the portfolio, so it is these names which usually drive performance. The strong style bias towards fast growing companies means that macro factors can be either a tailwind or headwind in the short term, but over ten year periods company earnings are the driver of performance.

Application

The fund is an ideal complement to a passive option in investor portfolios, offering something differentiated, backed by a strong investment philosophy that has been proven by the success of the Long-Term Growth portfolios managed by Baillie Gifford. The fund is not suitable for investors concerned about relative performance over short timescales.

Our Opinion

The investment process adopted by the Long-Term Growth team has always embraced risk and encouraged managers not to be put off by the fear of losses. This has always been explicitly stated by the team. The focus of the process is to invest early and hold for the longer term with the objective of holding market outliers from an early stage through to maturity. For stocks to deliver these outlier returns, there will generally be an element of controversy at the time of initial investment by Baillie Gifford.

The longer term record of the team both with this fund and other global mandates remains strong, although investors need to bear in mind that any strategy looking to only hold potential outliers will from time to time suffer greater volatility than more index aware or passive funds by the very nature of the investment process. There will always be periods when stock selection can be exceptionally good or poor over 1-3 year periods. The fund offers investors a differentiated approach in a market where many funds struggle to add value against passive options. Position sizing of the fund within portfolios needs to be appropriate for investor tolerance of volatility, so in most cases is best used as a satellite option and/or a complement to passive strategies in the US.



Important Notice

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