

## Baillie Gifford Emerging Markets Growth

Global Emerging Markets

### Introduction

Baillie Gifford are a long-term investor, and the EM fund approach is no exception. The investment philosophy is typical of Baillie Gifford equity funds – in essence it is bottom-up with a growth bias. Portfolios at Baillie Gifford typically have low turnover, and this is the case for this fund, the managers are not traders. The process looks to identify stocks which will grow faster than the market for a longer duration than the market expects. The team believe the market is poor at estimating the duration of above average profits growth in companies with a significant competitive advantage. The team are not obsessed with quarterly profit numbers issued by companies and when investing they typically take a 3-5-year view.



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

### Why RSMR Rate this Fund

- This is a strong well-resourced and experienced team
- The process is focused on long term investing
- The process is clear and consistent
- Performance has been strong across a number of regions feeding into this product

### Fund Process

The team look to assess five key factors. The first of these is industry background as Baillie Gifford likes to invest in a growth industry. They then look to find a company with a competitive advantage and significant barriers to entry. The next stage of the process is an assessment of a company's ability to execute which involves assessing both financial strength and management. The latter must be shareholder friendly, an especially important factor in this region. The last item on the list is valuation. As a house, Baillie Gifford is more flexible on the valuation placed on companies than some other investors. They are less willing to sell a stock just because it looks expensive in the short term, and they try and look through short termism and work out what the company would be worth in 5 years' time.

Liquidity in emerging market stocks is assessed by screening trading volume and the large team of around 10 investment professionals then undertake detailed fundamental research. The universe is further narrowed after screening through an assessment of industry background and competitive position. Analysts put together research reports together with detailed modelling of numbers which are then circulated amongst the team and discussed at the weekly meeting. The meeting discusses stock research projects and interesting ideas rather than reviewing maintenance research. On a monthly basis the emerging market policy committee looks at country and sector bets to ensure they are consistent with bottom-up ideas. Although company results are discussed at the daily meeting, the team rarely make snap decisions about a stock that has announced disappointing quarterly earnings, preferring to take a longer-term view. A dedicated risk team provide quarterly analysis of the portfolio, monitoring tracking error and active money. This is designed to inform the process rather than restrict fund managers.

Coverage of the universe is split on a geographic basis with at least two team members covering each region. The cross-fertilisation of ideas within the team has been a big contributor to performance over the years as the team look to utilise information from the discussion of intra-regional ideas to gain a research edge. They also undertake a significant amount of travel, making sure they meet the management teams of companies invested in.

As a growth investor it is vital that the team understand barriers to entry, particularly when buying higher PE companies, as any disappointment to the growth rate can lead to a downward move in the share price. The team therefore do a lot of work cross checking prospects for a business with competitors. Stocks are sold if there is a fundamental change in the investment case. The team do not operate hard price targets for buying or selling, but rather take a longer-term perspective. The longer-term growth opportunity over 5 years and what sort of profits this can generate are the key decisions on the investment case, together with an assessment of management's ability to execute the business plan effectively. The team do conduct reviews of underperforming names, but if nothing has changed are likely to add to the position.

Baillie Gifford have a dedicated ESG team which sits alongside the Investment Department providing research and working collaboratively with the investment managers contributing to investment decisions. One member of the ESG team is dedicated to supporting the Emerging Markets Equity Team.

### Evaluation

The portfolio is based on long-term growth investing and they will do well in these environments. The portfolio is least likely to perform well in late cycle periods or when cyclical or value investing is leading markets.

### Application

This fund can be used as a core holding and would work well alongside a value style fund.

## Our Opinion

Baillie Gifford has the benefit of an experienced and well-resourced team of emerging market managers. The team is a long-term growth investor looking for stocks that can grow for a number of years above the market average where the duration of growth is underestimated by other investors. The strength of the team and process, together with the results generated over the longer term, make the fund worthy of a rating and the focus on long term secular growth stories should deliver above average results over time.



### Important Notice

This document is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

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