

Baillie Gifford US Growth Trust

North America

Introduction

The Baillie Gifford US Growth Trust is a public company listed on the London Stock Exchange. The Trust is run by the US equity growth team and as a closed ended vehicle is able to hold unlisted investments. The team managing the fund believe that long-term equity returns are dominated by a small handful of exceptional growth companies that deliver outsized returns.



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

Manager - Gary Robinson, Kirsty Gibson

Gary graduated with a MBiochem in Biochemistry from the University of Oxford in 2003 and joined Baillie Gifford the same year. He moved to the US equities team in 2008. Gary is a generalist investor but retains a special interest in the healthcare sector dating back to his undergraduate degree

Kirsty joined Baillie Gifford in 2012 and is an Investment Manager in the US Equities Team. Kirsty graduated with an MA (Hons) in Economics in 2011 and an MSc in Carbon Management in 2012, both from the University of Edinburgh.

Trust Objective

The objective is to deliver long term capital growth.

Investment Process

In the search for exceptional growth companies, Baillie Gifford acknowledge there will be mistakes, but the only way to find this type of business is to embrace risk. There is a quest for exceptional growth companies, as there is inherent asymmetry in equity markets where it is possible to make far more money if a company goes right than would be lost if it goes wrong, and therefore there is a strong philosophy that the costliness of mistakes is excessive risk aversion.

The team use an 8-question framework when seeking out investable companies, as do all the US strategies managed by the team. This looks at both the purpose of the company and its long term ambitions and then whether the company's culture is aligned with its ambition. They look for a source of competitive advantage or other enduring sources of edge. They then see whether there is a large market opportunity and whether this can be rapidly capitalised upon. Importantly, for the fund to invest there must be the potential, or likelihood, of the fund making a 2.5x return over the next five years. The team focus on potential outliers. The US stock market has over most longer term time periods seen asymmetric distributions of return. In today's interconnected world, stocks can benefit from both network effects and social effects creating positive feedback loops. Traditional marketing models involving pushing consumers through a funnel driven by traditional advertising has seen a significant decline. Brands that had the most to spend on advertising and marketing were traditionally the most successful, but this is no longer the case today. Baillie Gifford believe that in a world more connected and digitalised there will be bigger and greater outliers than had been seen historically. The internet means winners can be created on a global scale. Penetration is faster because distribution through the internet is instant and free, whilst digitisation of goods and services has resulted in low or zero marginal cost of production for some businesses. Whilst few companies have these qualities, those that have can see significant valuation gains such as Amazon, Shopify, Tesla and the Trade Desk.

Twenty years ago, funds looking for exceptional growth companies were right to focus solely on the listed space. Today there has been a structural shift in markets and companies stay private for longer and often do not list until they have left the exceptional growth phase. The US Growth Trust therefore has the flexibility to invest in both listed and unlisted names. Finding suitable investment opportunities in the unlisted space is different from finding them in quoted stocks. Whilst there is an increased opportunity set, not every investor can gain access to these but Baillie Gifford, because of its reputation and contacts in this area are able to do so. Private companies want Baillie Gifford on board because they are long term supportive investors.

Gearing

The company can borrow up to 30% of net assets of the listed securities held by the company. Gearing is expected to be in the range of 10-20% of net assets of the listed securities.

Performance Fees

None.

Discount Mechanism

The fund has a liquidity policy to try and ensure that premiums or discounts do not reach non-sensible levels for long periods of time and premiums to asset value have been reduced by the issuance of further equity.

Our View

This fund focuses on what Baillie Gifford believe are exceptional growth companies where the share price has the potential to rise by a minimum of 2.5x over a 5-year period and there is a probability in excess of 20% of this being achieved. The Trust is run by the US equity growth team and has a flexible mandate allowing them to invest in both the listed and unlisted space. The philosophy is unusual for many equity managers in that the team embrace risk looking to exploit the inherent asymmetry in equity markets where it is possible to make far more in a company that goes right than lose if a company goes wrong. Whilst there is 100% maximum downside in an investment, it is possible over the longer-term to make far more than this, and this has been demonstrated by this team over many years. One of the key factors behind the success of the team has been to not top up stocks where the investment thesis has weakened, as this would then risk more than 100% of the initial capital. Whilst many investors tend to favour trimming outperformers and adding on weakness, the approach taken at Baillie Gifford is the exact opposite of this.

The fund has focused on the winners from long-term structural change in the economy, with a focus on technology enabled disruptive companies. Many of these have benefitted from a significant market share shift driven by Covid, but market share gains are expected to continue to expand going forward, with many businesses benefitting from both network effects and social effects. Today's world of rapid technological change has resulted in bigger gaps between winners and losers and the fund's focus is on finding potential stock market outliers with exceptional growth potential. Many businesses have self-reinforcing economies of scale.

Rather than looking at traditional sectors, the fund considers a number of types of disruptive businesses, including the future of commerce, new enterprises, evolution of transport, innovative healthcare, and digitalisation of finance.

A rigorous research process focused around the 8-question framework looks to highlight suitable businesses as potential investments. Often individual founder managers spend their life's work establishing an exceptional company by instilling a unique culture. Baillie Gifford believe analysing culture is a crucial part of the process and something that cannot be captured in traditional DCF or other quantitative valuation models. The team look for something distinctive about the culture and how this is a source of competitive advantage.

How to use this Trust: The US Growth Trust has delivered outstanding returns since launch through backing a number of transformational US listed companies which now dominate the global marketplace in industries seeing both strong secular growth and benefitting from network and social effects. The investment universe has been widened by taking exposure to unlisted businesses where the team believe they can capture the fastest phases of growth within these businesses. The approach taken is not aiming to give consistency against the stock market index on a quarterly basis but is prepared to take risks to capitalise on the unlimited upside in strongly performing equities. As a result short term performance can be volatile, but this trust is a strong investment for longer term investors looking to capture the potential inherent in exceptional growth businesses over the medium and longer term.

Investors should be mindful of the use of unlisted investments in the strategy and the ability for these to represent up to 50% of assets at time of investment. Investors should be aware that there could be periods of performance which differ from that of wider markets.

Key Strengths

Business:

Baillie Gifford is a partnership business which allows for a long term focus on investment management with no short term pressures from external shareholders

Team:

The co-managers are supported by the US equities team.

Process:

Long-term bottom up stockpicking process, focussed on exceptional growth companies. The team look for companies that can grow 2.5 times over a 5 year period.

Product:

Competitive fees from a team with a strong record. The blend of listed and unlisted companies should continue to benefit shareholders.



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.

Rayner Spencer Mills Research Limited is a limited company registered in England and Wales under Company. Registration Number 5227656. Registered Office: Number 20, Ryefield Business Park, Belton Road, Silsden, BD20 0EE. RSMR is a registered trademark.