

# SCOTTISH MORTGAGE INVESTMENT TRUST

## PRIVATE COMPANIES TOP 10 DEEP DIVE

September 2023

Your capital is at risk.



Valuation: \$60bn

Valuation: \$225bn

Valuation: \$20bn

Valuation: \$12bn

Valuation: \$4.3bn



Valuation: \$146bn

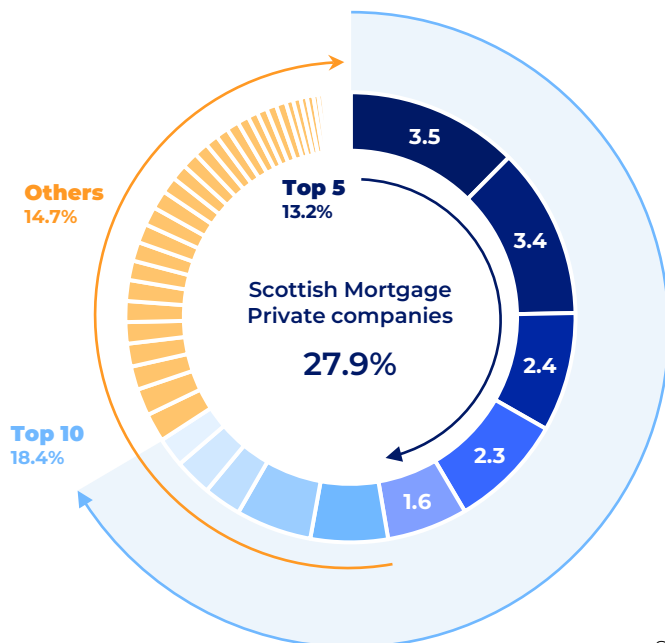
Valuation: \$56bn

Valuation: \$5.8bn

Valuation: \$4.0bn

Valuation: \$4.0bn

Scottish Mortgage private company equity valuations as at 30 June 2023. US dollars. Logos courtesy of companies.



53

Investments in private companies representing

27.9%

of the portfolio.

However:

Just under half (47%) of our private company exposure is in

5

companies

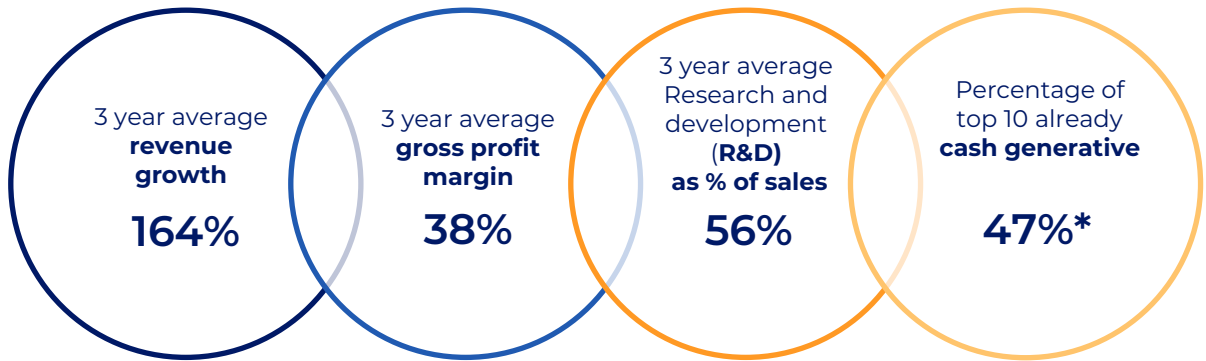
Approximately two thirds (66%) of our exposure is in

10

companies

These are the most important companies

# Operational performance of top 10 companies



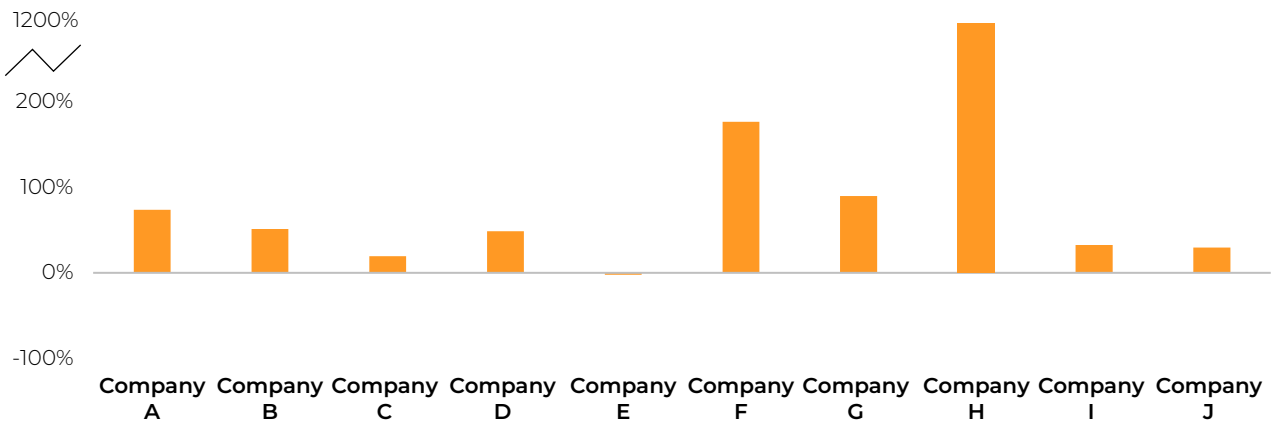
Source: Baillie Gifford. Scottish Mortgage. Three year figures to December 2022. \*As at 30 June 2023.

## Revenue Growth

While valuations have decreased and estimates for future growth rates have come down, the actual underlying growth of our private portfolio continues at a healthy level that considerably outpaces major indices.

Significant embedded revenue growth potential within the top 10 that will drive Net Asset Value (NAV) progression.

### Top 10 private companies three-year average revenue growth (%)



Company A Company B Company C Company D Company E Company F Company G Company H Company I Company J

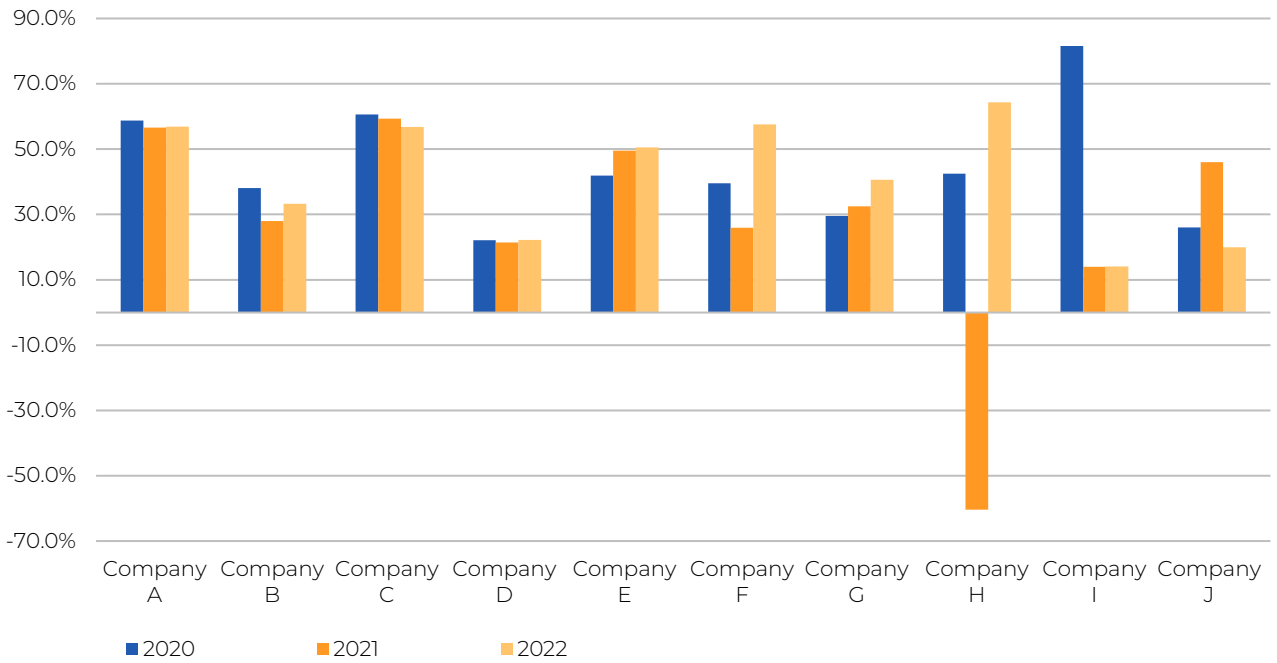
	2020	2021	2022	Average
Company A	106%	80%	35%	73%
Company B	17%	34%	102%	51%
Company C	45%	33%	-20%	19%
Company D	67%	54%	25%	49%
Company E	-4%	18%	-21%	-2%
Company F	133%	234%	162%	176%
Company G	206%	36%	26%	89%
Company H	3070%	325%	-27%	1123%
Company I	23%	57%	17%	32%
Company J	-28%	33%	84%	30%
<b>Top 10 average</b>				<b>164%</b>
<b>Top 10 average (excl. Company H)</b>				<b>58%</b>

The structural tailwinds should enable our portfolio companies to continue to deliver strong revenue growth

Source: Baillie Gifford. Scottish Mortgage. Three years to December 2022.

# Gross profit margin

## Top 10 Private companies gross profit margin (%)



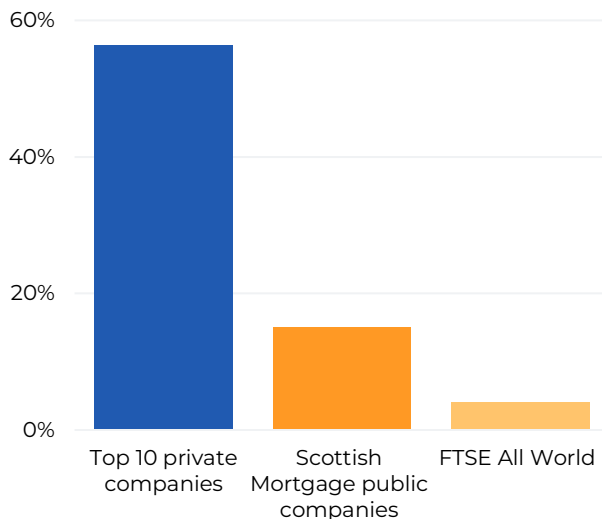
Source: Baillie Gifford, Scottish Mortgage. Three years to end December 2022.

Higher gross margins allow for more percentage profits of revenue to be spent on growth and product development.

Higher gross margins also tend to translate to higher cash flow margin, and in a world where ‘how much runway do you have?’ has become a (if not, the) preeminent question, cash is paramount.

## Research and development

### R&D as % sales



We want to see our companies **invest for the future.**

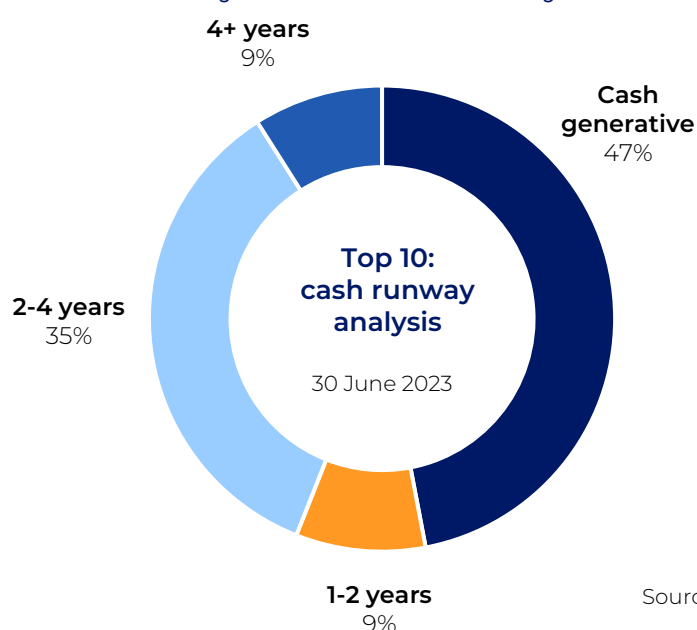
Investing in engineering and R&D during a recession can **help companies pull ahead** in the innovation race.

**Research and development (R&D) is imperative** to withstand competition, waves of disruption, and obsolescence.

R&D initiatives provide an **edge of innovation** to corporates for their products and services.

Source: FTSE, Factset, Baillie Gifford, Scottish Mortgage. Three year average to end December 2022. Information on Redwood Materials R&D not available and therefore not included in the above chart.

## Profitability and cash runways



By the end of 2023, **5 out of our top 10 private companies will be profitable and generating cash.**

Our most important private companies are thus **robust and well-funded.**

These companies have **reacted well to the tough fundraising environment** and have pulled forward time to profitability.

Source: Baillie Gifford. Scottish Mortgage. Data to 30 June 2023.

## Transactions for the Top 10

<b>Opening balance Jan 1<sup>st</sup> 2022</b>	<b>2,533,090,290</b>
+ capital deployed	+223,197,823
+/- changes in fair value	-330,346,081
<b>Closing balance June 30<sup>th</sup> 2023</b>	<b>2,425,942,033</b>

Key transactions					
+	Redwood	20,028,039	+	Northvolt	81,549,424
+	Stripe	83,213,473	+	Tempus Labs	38,406,887

18 month transactions to 30 June 2023. Sterling.

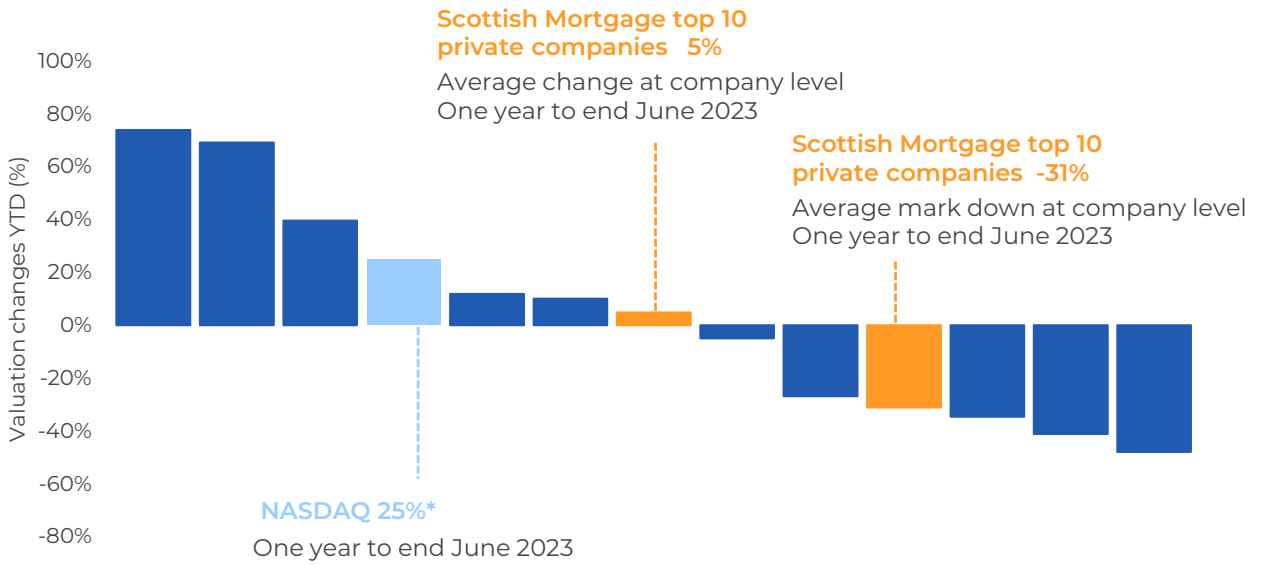
## Valuation analysis

Revaluation summary		Revaluation stats	
Number of revaluations	871	Valued up to 2 times	21%
Instruments held	99	Valued up to 4 times	3%
		Valued 5+ times	76%

Valuation movements	
Average movement per instrument	-59%
Average mark-down per instrument	-46%
Average movement at private company level	-33%
Average mark-down at private company level	-54%

18 month transactions to 30 June 2023.

## Valuation progress of top 10



Source: Baillie Gifford. Scottish Mortgage top 10 private company valuation changes year to date to end June 2023.  
\*Source: Morningstar. Total return for NASDAQ composite. 12 month to 30 June 2023, US dollars.

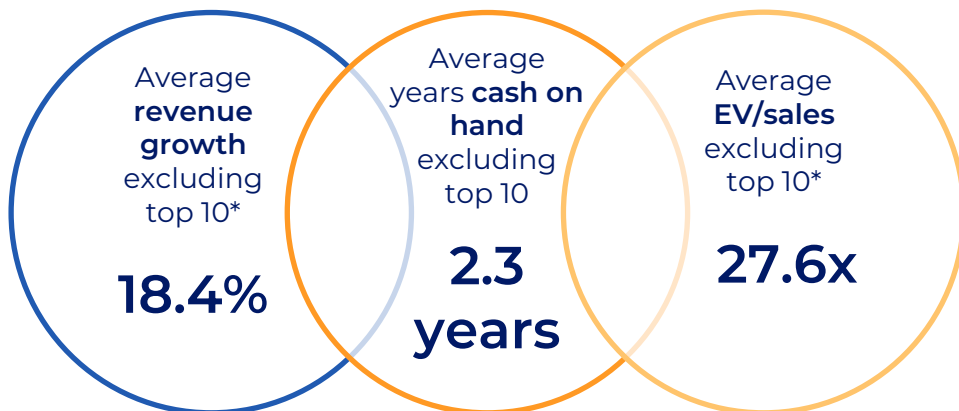
Top 10 equity valuations (EV)/sales			
Company A	2x	Company F	52x
Company B	28x	Company G	18x
Company C	2x	Company H	563x
Company D	3x	Company I	6x
Company E	4x	Company J	232x

Source: Baillie Gifford. Scottish Mortgage. As at 30 June 2023.

## And what about the rest?

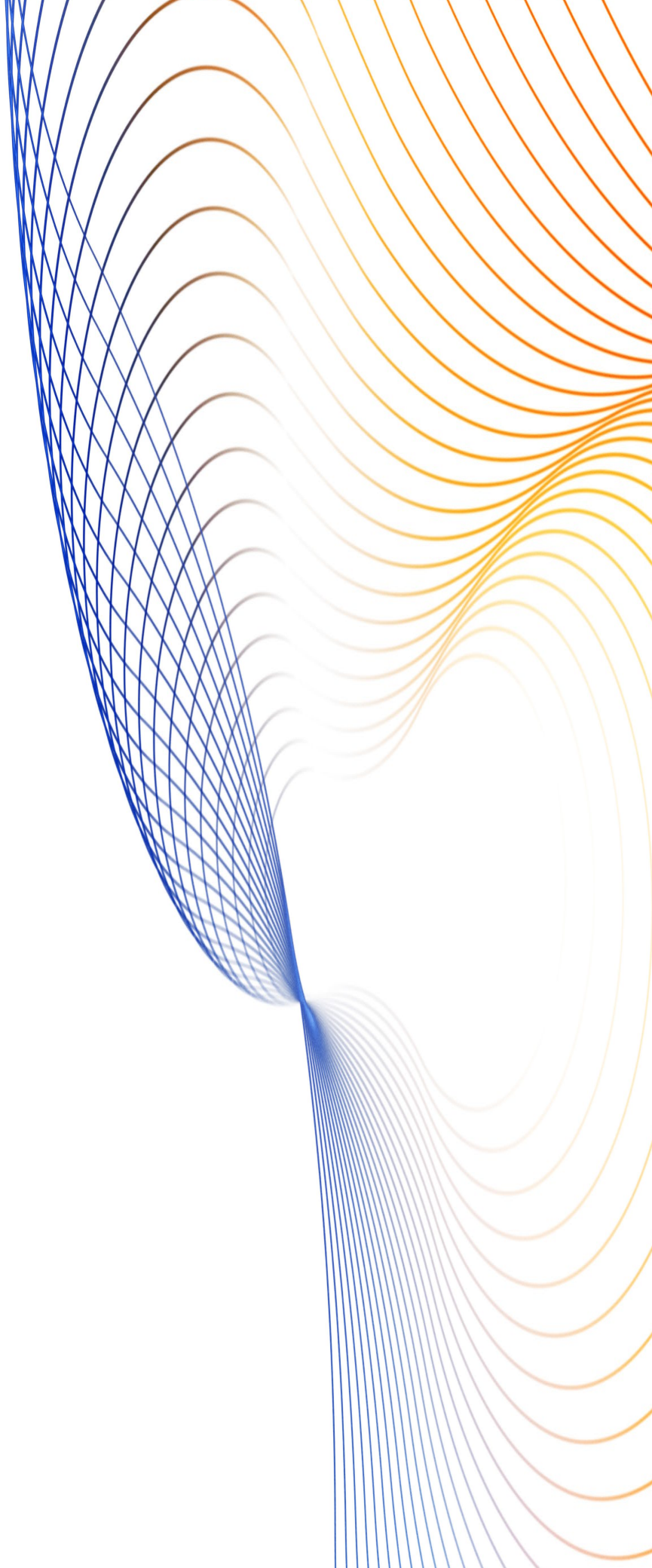
Position overall less healthy given earlier stage and some operational struggles

Data is also harder to aggregate and compare with smaller companies.



Source: Baillie Gifford. Scottish Mortgage. As at 30 June 2023. \*Trailing twelve months to 30 June 2023.

# Overview



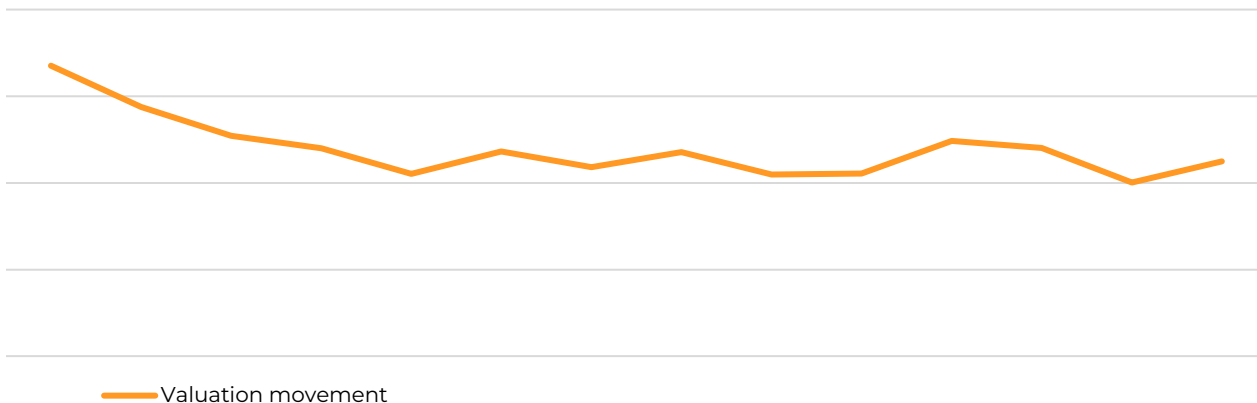
# Individual holdings in top 10



Company A	2022...						
Date	26-Jan	08-Mar	28-Mar	22-Apr	28-Jun	29-Jul	29-Sep
Valuation type	Trigger	Scheduled	Scheduled	Trigger	Scheduled	Trigger	Scheduled
Valuation basis	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple
Company revenue performance	↑	↑	↔	↔	↑	↔	↑
Public peer-set revenue multiple performance	↓	↓	↑	↓	↑	↓	↓
Overall valuation movement	↓	↓	↑	↓	↑	↓	↑

	...2022		2023			
Date	27-Oct	22-Dec	31-Jan	29-Mar	28-Apr	30-Jun
Valuation type	Trigger	Scheduled	Trigger	Scheduled	Trigger	Scheduled
Valuation basis	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple
Company revenue performance	↔	↑	↔	↑	↔	↑
Public peer-set revenue multiple performance	↓	↑	↑	↓	↓	↓
Overall valuation movement	↓	↑	↑	↓	↓	↑

## Company A: valuation movement



Source: Baillie Gifford analysis. US dollars.

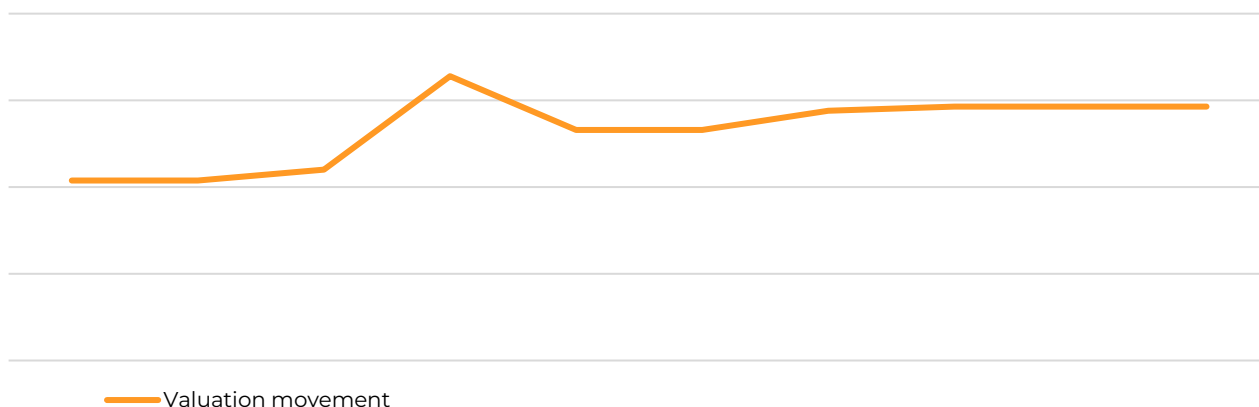
# Individual holdings in top 10



Company B	2022					
Date	24-Feb	31-Mar	06-Jun	28-Jun	29-Sep	22-Dec
Valuation type	Trigger	Scheduled	Trigger	Scheduled	Scheduled	Scheduled
Valuation basis	Price of recent transaction	Benchmark performance	Price of recent transaction	Price of recent transaction	Price of recent transaction	Benchmark performance
Benchmark performance movement: index	N/A	↑	N/A	↓*	↑*	↑
Overall valuation movement	↔	↑	↑	↔	↔	↑

2023			
Date	07-Feb	29-Mar	28-Jun
Valuation type	Trigger	Scheduled	Scheduled
Valuation basis	Price of recent transaction	Price of recent transaction	Price of recent transaction
Benchmark performance movement: index	N/A	↓*	↑*
Overall valuation movement	↑	↔	↔

## Company B: valuation movement



Source: Baillie Gifford analysis. US dollars. \*No valuation impact



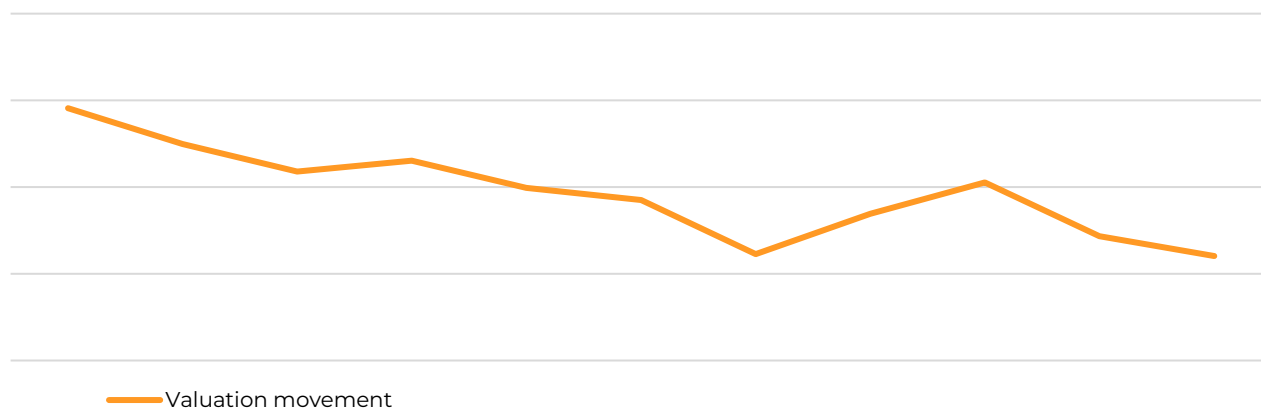
# Individual holdings in top 10



Company C	2022						
Date	31-Jan	29-Mar	28-Jun	04-Aug	29-Sep	26-Oct	22-Dec
Valuation type	Trigger	Scheduled	Scheduled	Trigger	Scheduled	Trigger	Scheduled
Valuation basis	Revenue multiple / benchmark performance	Revenue multiple / benchmark performance	Revenue multiple / benchmark performance	Revenue multiple / benchmark performance	Revenue multiple / benchmark performance	Revenue multiple / benchmark performance	Revenue multiple / benchmark performance
Company revenue performance	↔	↑	↓	↔	↓	↔	↓
Public peer-set revenue multiple performance	↓	↑	↑	↓	↑	↓	↑
Benchmark performance movement: index	↑	↓	↑	↓	↓	↓	↓
Overall valuation movement	↓	↓	↑	↓	↓	↓	↑

2023			
Date	31-Jan	29-Mar	28-Apr
Valuation type	Trigger	Scheduled	Trigger
Valuation basis	Revenue multiple / benchmark performance	Revenue multiple / benchmark performance	Revenue multiple / benchmark performance
Company revenue performance	↔	↓	↔
Public peer-set revenue multiple performance	↔	↓	↓
Benchmark performance movement: index	↑	↑	↓
Overall valuation movement	↑	↓	↓

## Company C: valuation movement



Source: Baillie Gifford analysis. US dollars.

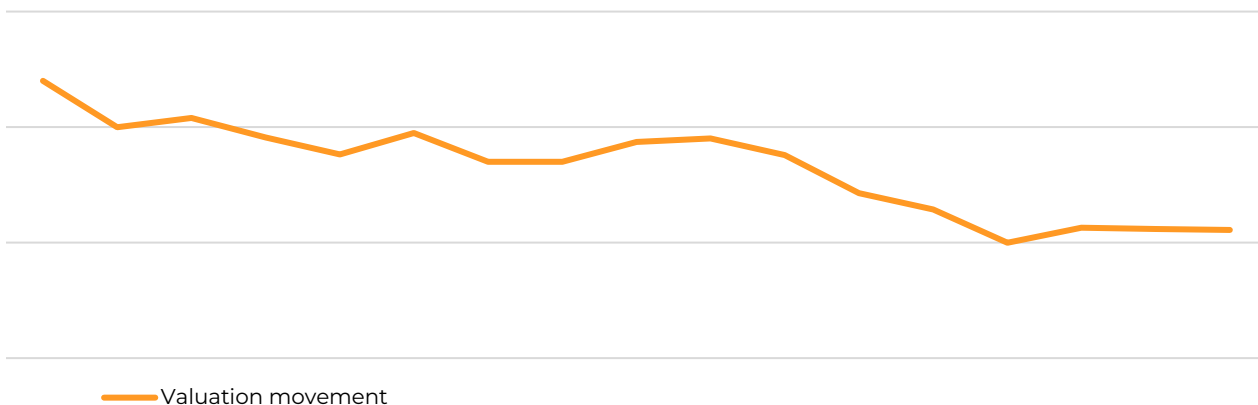
# Individual holdings in top 10



Company D	2022...							
Date	26-Jan	31-Mar	29-Apr	16-May	01-Jun	17-Jun	28-Jun	29-Jul
Valuation type	Scheduled	Scheduled	Trigger	Trigger	Trigger	Trigger	Scheduled	Trigger
Valuation basis	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple
Company revenue performance	↔	↑	↔	↑	↔	↔	↔	↔
Public peer-set revenue multiple performance	↓	↓	↓	↓	↑	↑	↓	↑
Overall valuation movement	↓	↑	↓	↓	↑	↓	↔	↑

	...2022		2023					
Date	29-Sep	31-Oct	19-Jan	03-Feb	10-Mar	20-Mar	31-Mar	28-Jun
Valuation type	Scheduled	Trigger	Scheduled	Trigger	Trigger	Trigger	Scheduled	Scheduled
Valuation basis	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple	Revenue multiple	Initial transaction	Price of recent investment	Price of recent investment
Company revenue performance	↑	↔	↑	↔	↔	N/A	↔	↑*
Public peer-set revenue multiple performance	↓	↓	↓	↓	↓	N/A	↑*	↑*
Overall valuation movement	↑	↓	↓	↓	↓	↑	↔	↔

## Company D: valuation movement



Source: Baillie Gifford analysis. US dollars. \*No valuation impact.

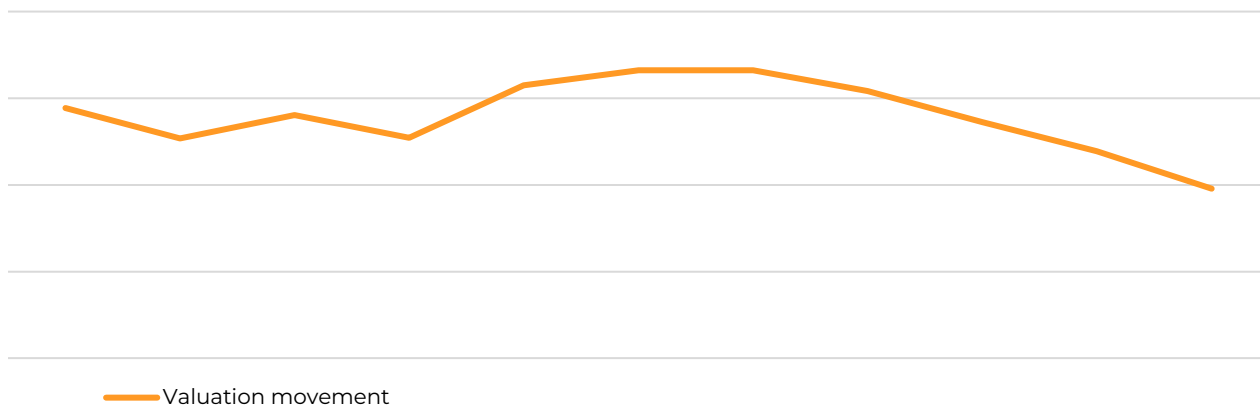
# Individual holdings in top 10



Company E	2022							
Date	28-Jan	25-Feb	31-Mar	11-Apr	30-May	29-Aug	20-Sep	29-Nov
Valuation type	Trigger	Scheduled	Trigger	Trigger	Scheduled	Scheduled	Trigger	Scheduled
Valuation basis	Revenue multiple	Revenue multiple	Revenue multiple	Price of recent transaction	Price of recent transaction	Price of recent transaction	Revenue multiple	Revenue multiple
Company revenue performance	↔	↔	↔	N/A	↓*	↓*	↔	↓
Public peer-set revenue multiple performance	↑	↑	↓	N/A	↓*	↑*	↓	↑
Overall valuation movement	↑	↑	↓	↑	↔	↔	↓	↓

	2023	
Date	27-Feb	31-May
Valuation type	Scheduled	Scheduled
Valuation basis	Revenue multiple	Revenue multiple
Company revenue performance	↓	↓
Public peer-set revenue multiple performance	↑	↓
Overall valuation movement	↓	↓

## Company E: valuation movement



Source: Baillie Gifford analysis. US dollars. \*No valuation impact.

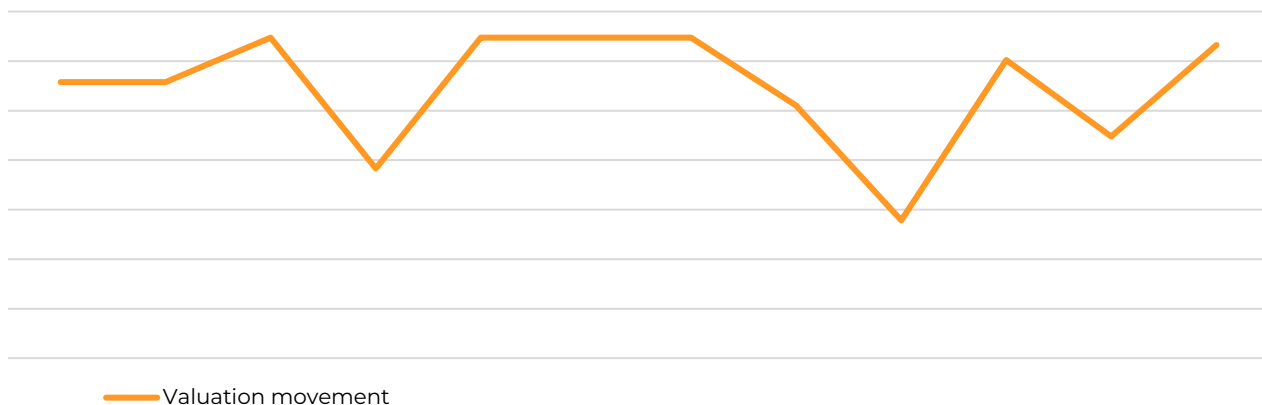
# Individual holdings in top 10



Company F	2022						
Date	26-Jan	28-Mar	29-Apr	08-Jul	17-Aug	29-Sep	22-Dec
Valuation type	Scheduled	Scheduled	Trigger	Scheduled	Trigger	Scheduled	Scheduled
Valuation basis	Price of recent transaction	Price of recent transaction	Benchmark performance	Price of recent transaction	Initial transaction	Price of recent transaction	Benchmark performance
Benchmark performance movement: index	↑ *	↓ *	↓	↑	N/A	↑ *	↓
Overall valuation movement	↔	↔	↓	↑	↔	↔	↓

2023				
Date	05-Jan	31-Jan	29-Mar	28-Jun
Valuation type	Trigger	Trigger	Scheduled	Scheduled
Valuation basis	Benchmark performance	Benchmark performance	Benchmark performance	Benchmark performance
Benchmark performance movement: index	↓	↑	↓	↑
Overall valuation movement	↓	↑	↓	↑

## Company F: valuation movement



Source: Baillie Gifford analysis. US dollars. \*No valuation impact.

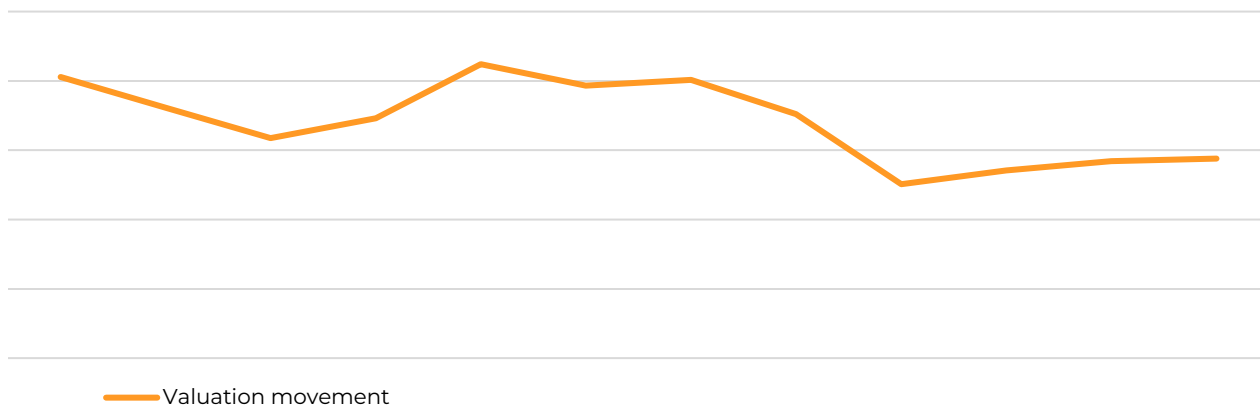
# Individual holdings in top 10



Company G	2022...						
Date	28-Jan	08-Mar	31-Mar	19-Apr	30-May	28-Jul	30-Sep
Valuation type	Scheduled	Trigger	Trigger	Trigger	Scheduled	Scheduled	Trigger
Valuation basis	Benchmark performance	Benchmark performance	Benchmark performance	Initial transaction	Benchmark performance	Benchmark performance	Benchmark performance
Benchmark performance movement: peer-group share prices	↓	↓	↑	N/A	↓	↑	↓
Overall valuation movement	↓	↓	↑	↑	↓	↑	↓

	...2022	2023		
Date	09-Nov	27-Jan	31-Mar	28-Apr
Valuation type	Scheduled	Scheduled	Trigger	Scheduled
Valuation basis	Benchmark performance	Benchmark performance	Benchmark performance	Benchmark performance
Benchmark performance movement: peer-group share prices	↓	↑	↑	↑
Overall valuation movement	↓	↑	↑	↑

## Company G: valuation movement



Source: Baillie Gifford analysis. US dollars.

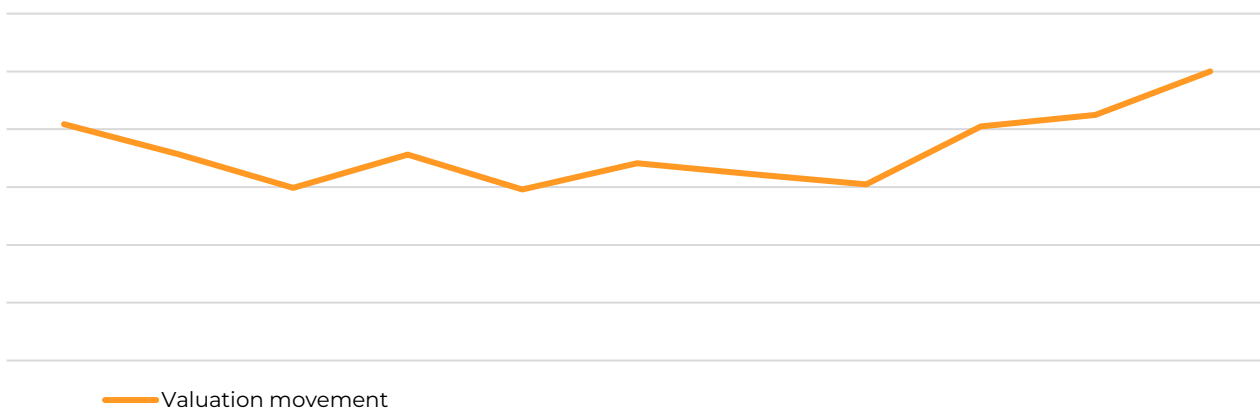
# Individual holdings in top 10



Company H	2022					
Date	26-Jan	10-Mar	31-Mar	09-Jun	29-Aug	29-Nov
Valuation type	Trigger	Scheduled	Trigger	Scheduled	Scheduled	Scheduled
Valuation basis	Benchmark performance	Benchmark performance	Benchmark performance	Benchmark performance	Benchmark performance	Benchmark performance
Benchmark performance movement: index	↓	↓	↑	↓	↑	↓
Overall valuation movement	↓	↓	↑	↓	↑	↓

2023				
Date	27-Feb	02-May	29-May	05-Jun
Valuation type	Trigger	Trigger	Scheduled	Trigger
Valuation basis	Benchmark performance	Price of expected transaction	Price of expected transaction	Initial transaction
Benchmark performance movement: index	↓	↑	↑	↑
Overall valuation movement	↓	↑	↑	↑

## Company H: valuation movement



Source: Baillie Gifford analysis. US dollars.

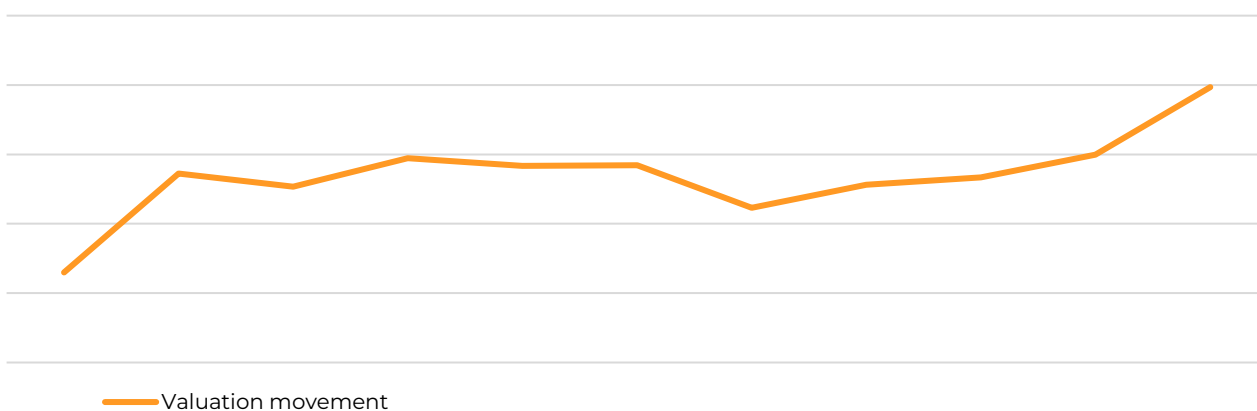
# Individual holdings in top 10



Company I	2022						
Date	25-Feb	08-Mar	28-Mar	10-May	28-Jun	03-Oct	22-Dec
Valuation type	Trigger	Trigger	Scheduled	Trigger	Scheduled	Scheduled	Scheduled
Valuation basis	Sum of the parts	Sum of the parts	Sum of the parts	Sum of the parts	Sum of the parts / price of expected transaction	Sum of the parts / price of expected transaction	Sum of the parts / price of expected transaction
Company historic revenue performance	↔	↔	↔	↔	↔	↑	↑
Value of minority investments	↑	↔	↑	↔	↔	↓	↓
Public peer-set revenue multiple	↑	↑	↓	↓	↑	↓	↓
Overall valuation movement	↑	↑	↑	↓	↑	↓	↑

2023			
Date	29-Mar	06-Jun	30-Jun
Valuation type	Scheduled	Trigger	Scheduled
Valuation basis	Sum of the parts / price of expected transaction	Price of recent transaction	Price of recent transaction
Company historic revenue performance	↓	N/A	↓*
Value of minority investments	↓	N/A	↓*
Public peer-set revenue multiple	↑	N/A	↑*
Overall valuation movement	↑	↑	↑

## Company I: valuation movement



Source: Baillie Gifford analysis. US dollars.

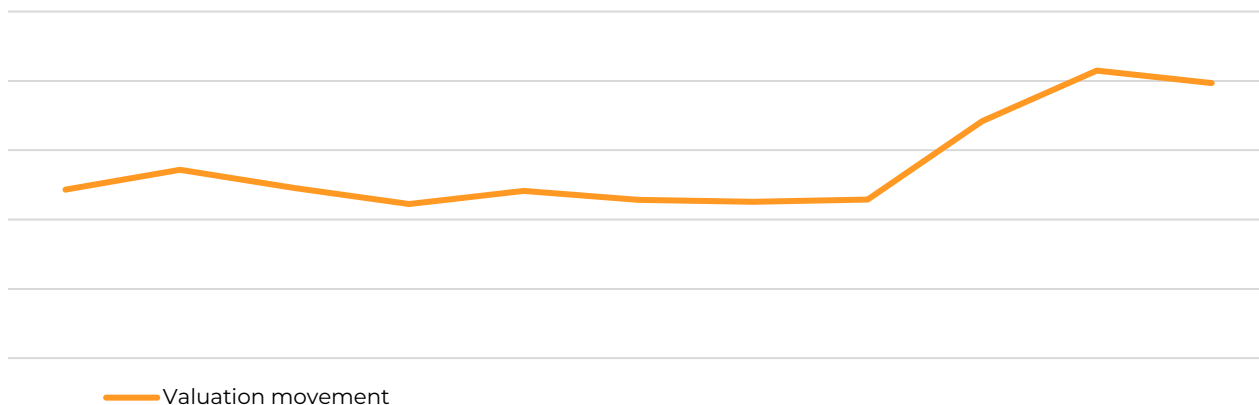
# Individual holdings in top 10



Company J	2022						
Date	28-Mar	29-Apr	13-May	01-Jun	28-Jun	29-Sep	22-Dec
Valuation type	Scheduled	Trigger	Trigger	Trigger	Scheduled	Scheduled	Scheduled
Valuation basis	Benchmark performance	Benchmark performance	Benchmark performance	Benchmark performance	Benchmark performance	Benchmark performance	Benchmark performance
Benchmark performance movement: peer-group share prices	↑	↓	↓	↑	↓	↓	↑
Overall valuation movement	↑	↓	↓	↑	↓	↓	↑

2023			
Date	22-Mar	11-Apr	28-Jun
Valuation type	Trigger	Trigger	Scheduled
Valuation basis	Price of expected transaction	Initial transaction	Price of recent transaction
Benchmark performance movement: peer-group share prices	N/A	N/A	↔
Overall valuation movement	↑	↑	↔

## Company F: valuation movement



Source: Baillie Gifford analysis. US dollars.



<b>Revenue growth</b>	The amount of money a company makes over a predetermined time, in comparison to an identical period, for example, how much money was made this month compared to last month.
<b>Gross profit margin</b>	Company profit after subtracting the cost of goods sold, i.e. the money a company makes after deducting the overall cost of doing business.
<b>R&amp;D as a % of sales</b>	The ratio of the proportion of capital expenditures (Capex) a company spends on research and development (R&D) vs its total sales. It is used to evaluate a company's investment in R&D and its ability to generate revenue from those investments.
<b>Cash on hand</b>	The amount of money accessible by a company when required for unexpected expense. It can include cash, short-term liquid investments, or liquid assets that can be converted to cash.
<b>Cash runway</b>	The number of months a business has before running out of cash.
<b>Average mark-down</b>	A mark-down is an accounting term for the reduction in value of an asset. The amount of the mark-down is the difference between the book value listed on the balance sheet and how much you could recover from it now that the asset's value has been reduced.
<b>Equity value (EV)</b>	The value of a company available to its shareholders.
<b>Company revenue performance</b>	The growth in revenue specific to the private company from one valuation date to the next.
<b>Revenue multiple</b>	A metric used as an input to calculating the value of the private investments in the portfolio, calculated as Enterprise Value / Revenue. It refers to the public comparators used to calculate the value of the private investments.
<b>Public peer-set revenue multiple performance</b>	The change in the revenue multiple of the public comparators used in calculating the value of the private investments. This change is from one valuation date to the next.
<b>Sum of the parts</b>	Where companies in the portfolio operate like holding companies, making their own respective investments, we value its underlying portfolio utilising the methodologies noted above to determine the total valuation of the holding company.

<p><b>Trading multiple</b></p>	<p>This valuation methodology sees each of the private investments being valued with reference to the trading multiples of its respective public peer-set. For this methodology to apply, the portfolio company must be making sustainable, recurring revenue or profits. In most cases where this approach is undertaken within the portfolio the multiple is driven by the last twelve months of reporting, but this can also take the form of a forward-looking multiple. The latter would be appropriate if any of the portfolio companies has made a meaningful acquisition that's likely to result in the significant change in performance.</p>
<p><b>Benchmark performance</b></p>	<p>For those companies in the private portfolio earlier in their operational lifecycle a trading multiples approach will likely not be appropriate and introduce extra volatility into the valuation. In these circumstances the valuation of the private investment is influenced by the share price movements of its selected public peer-set or sector specific indices. In constructing a peer-set the aim is to ensure that there is sufficient market and geographic exposure, similar business models from the public comparators and growth profiles that best align with the private investment being valued to ensure that the peer-set is the most appropriate benchmark for valuation. This methodology will also factor in milestone events at each company and consider how they may impact the valuation.</p>
<p><b>Initial transaction/ price of recent transaction</b></p>	<p>An initial transaction is the basis for valuation where Scottish Mortgage has participated in a recent funding round in any of the private investments. As we move away from the transaction date, additional work is performed utilising the methodologies above to ensure that a recent transaction price remains the best proxy for valuation. Should these methodologies indicated no meaningful change in valuation this provides sufficient evidence to value in line with the 'Price of recent transaction'.</p> <p>As part of this process, the arm's-length nature of the raise is assessed. Where a valuation has been held in line with the 'price of recent transaction' despite there being a movement in the underlying valuation drivers these movements haven't been significant enough to suggest moving away from the valuation implied by the recent transaction at the time of review.</p>
<p><b>Price of expected transaction</b></p>	<p>In instances where companies in the portfolio are looking to raise additional capital in an arm's-length transaction where there is a signed term sheet in place but this is yet to close, the valuation will be updated to reflect the terms of this but with a discount applied to account for the execution risk associated with the investment as well as any potential last minute movements in price. Until said transaction closes, the expected transaction price forms the basis for valuation.</p>

	<b>30/06/18</b> <b>30/06/19</b>	<b>30/06/19</b> <b>30/06/20</b>	<b>30/06/20</b> <b>30/06/21</b>	<b>30/06/21</b> <b>30/06/22</b>	<b>30/06/22</b> <b>30/06/23</b>
Share Price	0.7	55.4	62.8	-46.1	-6.3
NAV	2.5	54.8	70.1	-38.8	1.9
Index (FTSE All-World)	10.1	5.7	25.0	-3.6	11.7

Scottish Mortgage Investment Trust periodic performance (%)

	<b>1 year</b>	<b>5 years</b>	<b>10 years</b>
Share Price	-6.3	28.8	334.7
NAV	1.9	68.4	436.9
Index (FTSE All-World)	11.7	56.7	190.3

Performance above is based on full Scottish Mortgage portfolio. Past performance is not a guide to future returns. Source: Morningstar, FTSE. The Net Asset Value performance periods are reported as NAV Cum Fair. Total return in sterling terms.

**Website**

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— Scottish Mortgage can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid by the Trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the Trust will make a loss. If the Trust's investments fall in value, any borrowings will increase the amount of this loss.

— The Trust has a significant investment in private companies. The Trust's risk could be increased as these assets may be more difficult to sell, so changes in their prices may be greater.

— The Trust can make use of derivatives. The use of derivatives may impact on its performance.

— Share prices may either be below (at a discount) or above (at a premium) the net asset value (NAV). The Company may issue new shares when the price is at a premium which may reduce the share price. Shares bought at a premium may have a greater risk of loss than those bought at a discount

— The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.

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