International Concentrated Growth

Philosophy and Process

Baillie Gifford™

Regulatory information

Important information and risk factors

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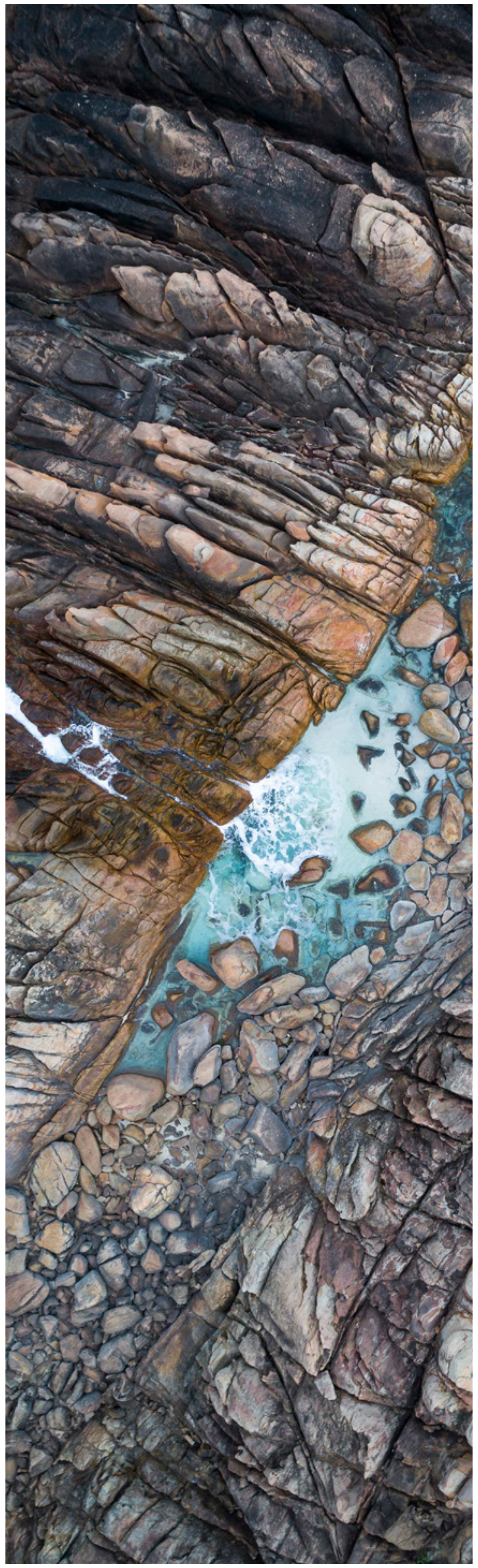
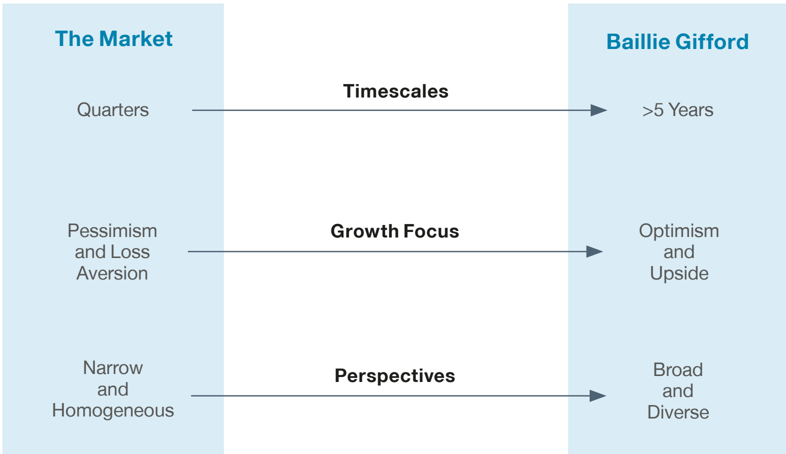


Summary

International Concentrated Growth is a bottom-up equity strategy focused on exceptional international growth companies. It invests in businesses that are creating and benefiting from long-term structural changes in the economy and society. It holds 20–35 stocks, drawn from developed and emerging international markets, and has the latitude to invest up to 15% in US equities.

This strategy is unique in three key ways. Firstly, it has exceptionally long holding periods. Secondly, its core philosophy is centered on the asymmetry of stock returns and focuses on the upside of an investment case. Thirdly, it is concentrated and willing to take large holdings in companies when justified by the probability weighted returns available. This investment philosophy is supported by the stability and culture of our partnership structure.

The International Concentrated Growth strategy aims to produce returns which exceed the MSCI ACWI ex US index by 3%+ per annum over rolling periods of five years. *Our approach to portfolio construction is purely stock driven and without reference to any benchmark.



* The performance target stated is in no way guaranteed, nor is it intended to be precise. We believe it to be a reasonable estimate of the amount by which we can outperform the relevant benchmark in the long term through the consistent application of our investment process, taking into account the opportunity set and the characteristics of the markets in which the strategy invests. Factors that may lead to Baillie Gifford failing to meet our investment performance objectives in future include a significant change in market characteristics such that our growth investment style is unrewarded for a period of time; or misjudgement of the prospects for long-term earnings growth for a significant number of individual stocks in which we invest.

Our competitive advantages

Long-term

Long-term investment is central to our investment philosophy. A company's value is rarely determined by what will happen in the next few quarters but instead what will happen in the many years ahead. It is over years that deep changes in industries and consumer behaviour occur and that competitive advantage and management excellence are recognised. Therefore, we feel it is necessary to judge, assess and own companies over periods of at least five years.

We believe we have an advantage in making investment decisions over a five to ten year horizon simply because so much of the market is focused only on the next few quarters.

Taking a genuinely long-term approach is not easy. Nevertheless, we believe the structure of Baillie Gifford, as a century old private partnership, and its culture helps us to do so. We believe this structure is crucial to our ability to invest in a genuinely long-term manner.

Focused on growth and upside

We are interested in companies that have the potential to grow significantly over our five to ten year investment horizon. In particular, we seek growth that is structural and even explosive in nature. We believe that the combination of globalisation and technological change in a variety of industries is the catalyst for astonishing company growth rates, even when coming from a sizeable base, and that this is often underestimated and difficult to capture using a short-term approach.

These sorts of companies offer the very best opportunities for equity investors: unlimited upside, yet capped downside (as illustrated in the Asymmetric Returns chart, opposite). Our approach, given this balance, is to focus on the upside potential of the companies we identify. Finding and owning exceptional long-term winners that can potentially increase in value five-fold or more is central to our approach.

Focusing on such upside is challenging both behaviourally and analytically. Academic research suggests that most individuals dislike financial losses at least twice as much as they take pleasure in gains. We fear that in fund management the difference is even starker. We believe that the stability and independence of our partnership structure and the long-term focus this provides gives us a behavioural edge. We do not fear failure at the stock level. This is an important and, we think, distinguishing feature.

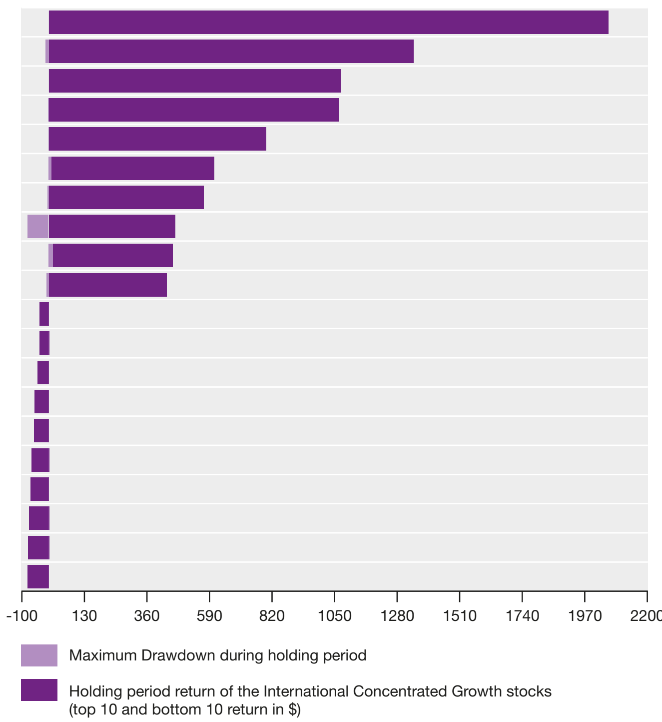
Concentrated

We believe that exceptional growth companies are rare. We therefore adopt a concentrated portfolio approach of 20–35 holdings, enabling us to focus our efforts on companies that we think are truly exceptional and to own them in such size that the impact of each will be meaningful to our clients. We believe that by operating with a concentrated portfolio we are able to keep the bar for inclusion very high. We also believe that, if a client already has a number of equity managers, they are likely to be well diversified in terms of their overall investment exposure.

Global in our thinking

As International equity managers we believe it is important not to ignore companies that may have significant, disruptive effects on international markets, despite being headquartered in the US. We therefore allow the fund to invest up to 15% in the US. However, any US companies we own must be global in their reach, must be seen to be disrupting international markets, and must not be a clearly replicable investment case elsewhere.

Asymmetric returns
Top and bottom 10 anonymised stock returns



Source: StatPro. Based on the International Concentrated Growth composite. US dollars. 10 years to September 30, 2021.
Some stocks were only held for part of the period.

Our investment process

*Our investment process can be broken down into four parts: **idea generation, initial research, investment decision and ownership.***

Idea generation

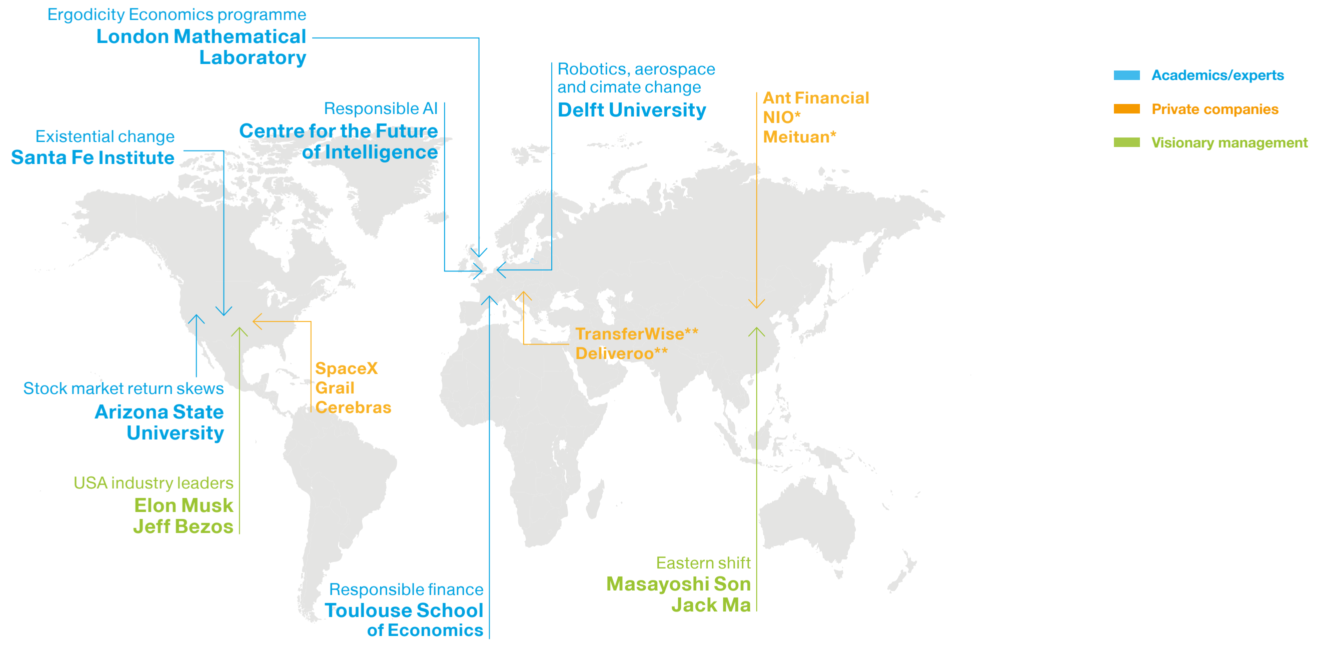
Our objective is discovery rather than coverage. All four fund managers are first and foremost analysts, finding and evaluating new ideas. As our time horizons are not very well aligned with the quarterly focus of traditional finance, having a diverse array of differentiated information sources is an important part of our idea generation process. On an ongoing basis, we seek input from external thought leaders we admire to provide a genuinely differentiated perspective on our investments, approach and overall portfolio.

In particular, we find that relationships with industry thought leaders, private companies, academics and company management provide a valuable flow of ideas to direct our efforts. We are also fortunate to operate in a firm with over 130 investors and 18 different equity investment teams, including a presence on the ground in China. This provides us with a constant flow of ideas.

Academia provides us with different perspectives and very long time horizons. When looking for companies to invest in, we are thinking about what the world might look like in ten years' time. Our contacts therefore help us understand important trends, how these will impact society in the future, and what that means for the companies we are thinking of investing in. We are also fortunate to have rare access to corporate thought leaders who are actively changing the world and shaping the very future that we wish to understand. We therefore find these relationships helpful to understand changes in the broader world not just the companies they run. These relationships are not easy to build and can take years, but become possible upon demonstration of being large, patient and long-term owners.

Private companies provide another window into the future allowing us to understand the latest trends and areas of future disruption. Baillie Gifford's investments in private companies allows us access that those only investing in public companies would struggle to achieve. There is the option for separate account clients to have up to 10% exposure to private companies in ICG if they wish, as we believe private companies will become increasingly important as an opportunity set in years to come.

Baillie Gifford has over 130 other long-term and growth orientated investors to feed in ideas and insights. All the investment staff at Baillie Gifford are first and foremost analysts, regardless of seniority, and spend the majority of their time carrying out research. Research is widely shared and openly discussed across our open plan offices. We believe that the firm's culture, helped in part by the stable environment that the partnership provides, is crucial to the success of the collaborative research that our investors undertake. We believe that the open and challenging discussion of ideas helps to improve the quality of our research and gives us a better opportunity to make good decisions for our clients.



*These companies listed in 2018. **These companies listed in 2021. Average holding periods based on a five year turnover for a representative International Concentrated Growth Portfolio. As of September 30, 2021. © Image Courtesy of Amazon, © Aflo/REX/Shutterstock, © ASML.

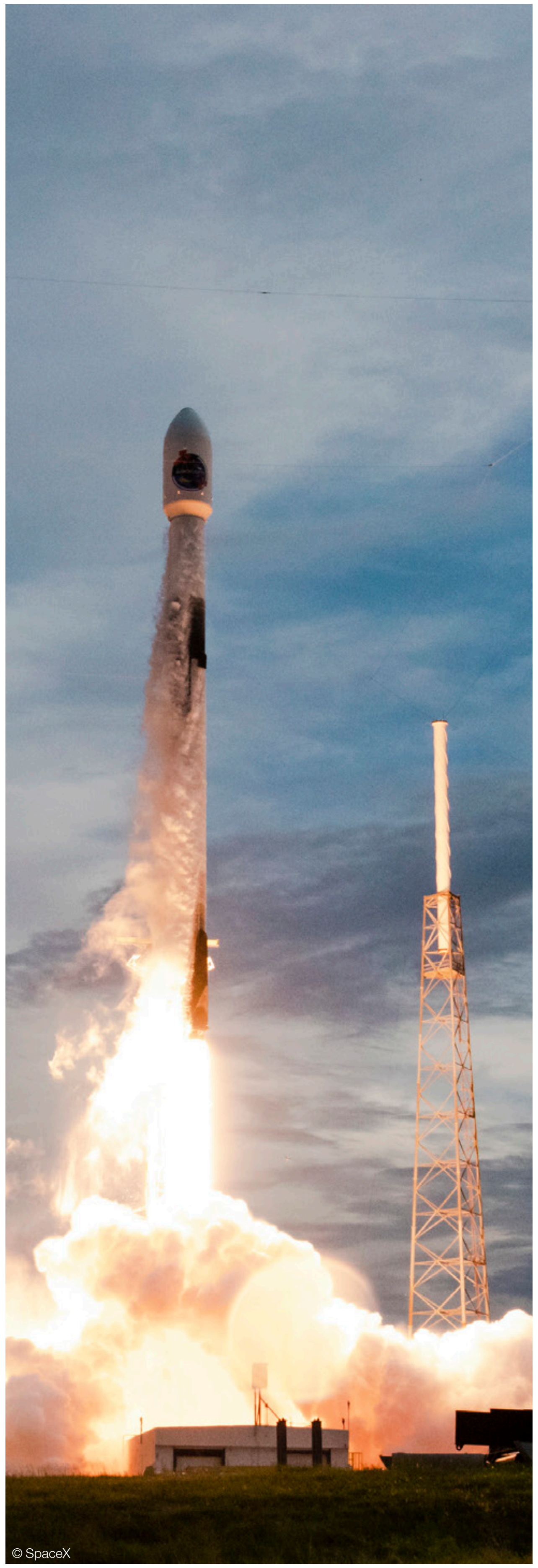
Initial research

Our research process is long-term, bottom-up, and fundamental. It is geared towards the discovery of transformational growth companies, rather than coverage of an entire investable universe.

At the heart of our process is a 12–question stock research framework:

	Exceptional growth
1	What could sales be in five years?
2	What could happen in the subsequent five years?
	Durable edge
3	Why do customers like this company?
4	Why can't others do what it can? When will others be able to do so?
5	How does AI affect this company?
	Stewardship
6	How do management and the culture support the company?
7	How strong is its forward looking social licence to operate?
	Financial strength
8	What could the financial returns look like?
9	What are the potential valuation outcomes?
	Perspective
10	Why doesn't the market appreciate all of this?
11	What external validation do we have of our investment thesis?
12	How can we further our knowledge?

Each new idea in the portfolio is put through a research framework in order to ensure our analysis focuses on the long-term fundamentals and upside potential. The research framework considers both the scale and sustainability of the opportunity on a 5–10 year view. We use the analysis to help us construct a probability-weighted valuation, which looks at long-term scenarios for the value of the company and the likelihood of success.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Investment decision

The decisions are made by the small team of three portfolio managers, with collective responsibility. There is, however, a strong emphasis placed on backing the individual rather than an attempt to achieve consensus. The most rewarding investment ideas can be both controversial and highly uncertain and we believe requiring consensus on decision making would reduce our likelihood of buying such companies. In practice, this means that a holding can be taken if it has the backing of only one fund manager. However, in order to become a larger-than-average holding, buy-in of the entire team is required. In practice, portfolio and stock discussions take place on an ongoing basis. Company developments and research are regularly discussed. Formal strategy meetings are held at least once a quarter. The strategy is managed on a team basis by Lawrence Burns, Paulina McPadden, and Spencer Adair.

Once a company has been subject to our analysis, the three portfolio managers are responsible for making the ultimate decision on its inclusion (or otherwise) in the portfolio. There does not need to be consensus for a new idea to be bought for the portfolio. The team are very willing to back individual enthusiasm, however there must be a robust discussion around the company. The weight of any new holding will be aligned with the enthusiasm for the stock among the group, and reflective of both its potential upside, the probability we associate with this, and the competition for capital amongst other holdings within the portfolio. Individual stocks are selected on their own merits with no regard for their weight in an underlying index.

Should the return no longer be sufficient to deserve a holding in the portfolio, we will sell the holding. We do not have any triggers for automatic sales. The principal reason for a sale would be that the company answers our analysis less convincingly than before. This might include an adverse change in the company fundamentals; a loss of confidence in management; or a situation whereby a company's shares have performed well to the extent that the scope of potential upside has substantially reduced, and there are better investment opportunities elsewhere.

Exceptional growth companies are, by their very nature, rare. We adopt a concentrated portfolio approach of 20–35 holdings. This enables us to focus our efforts on companies that we think are truly exceptional and to own them in such size that the impact of each will be meaningful to clients.

Ownership

Ownership is the most important and longest part of the investment process. It is vital we are good long-term owners of businesses. Individual companies, particularly, those facing a transformational growth opportunity are likely to face periods of market doubt and volatility over our 5–10+ year holding period. Being patient and supportive through these inevitable periods is crucial to fully benefit from the asymmetric return potential they offer, as well as presenting attractive opportunities to build and add to our holdings.

We also hope our actions as long-term supportive investors cause companies to actively want us on their shareholder register. We believe that for some companies a large, supportive and doggedly long-term investor can help shield management from the short term pressures of financial markets. This can empower companies to take crucial decisions over a multi-year time horizon rather than a quarterly one. We think this creates greater long-term value for the company and our clients.

Through running a concentrated portfolio and benefiting from Baillie Gifford's scale across investment strategies we are in a position whereby we matter to companies. Moreover we believe our long-term approach better aligns us with the management teams of the world's most exceptional long-term growth companies. These factors offer us regular access to leading industry visionaries and founders. We find such interactions invaluable in understanding both how an individual company is changing as well as wider societal and economic changes. For us, therefore ownership is the beginning of a journey that may last well over a decade, and a mechanism through which we hope to continue to improve our understanding and add value for our clients.

Our approach to risk

It is the perceived uncertainty in an investment case that allows for the existence of substantial upside, and it is only through genuine and material differences to indices that we can hope to do a truly admirable job for our clients. We therefore view risk as a source of competitive advantage and are fortunate to operate in a culture and institutional structure that allows for long-term risk taking.

We don't fully understand how the world is changing but we attempt to do so, primarily by applying our research framework and ongoing research during ownership. Beyond this, we recognise the importance of upside-based risk analysis and to tackle this, we consider the following questions on an annual basis.

1 What big opportunities and changes in the world are being missed by the portfolio?
2 How do we go about reflecting them in the portfolio?
3 What are the changes we are already invested in but not sufficiently?
4 What are the best performing companies we have not owned?
5 Why did we not own them, should we have and how do we make sure we don't miss similar opportunities in the future?
6 How can we improve our research process and decision making?

We also believe that many traditional risk tools are unhelpful. We see the main risk to clients as permanent loss of capital, not how close you are to an index. So we do not intend to measure tracking error and we eschew the underlying assumption that the benchmark is a risk-free option for investors. Increasingly, the country in which a company is listed or headquartered tells us little about that company or its risk profile in a globalised world. MSCI-defined sectors are also poor descriptors of a business and its risk profile. For example, the tendency to classify many disruptive high growth companies as information technology companies, even when they are clearly replacing traditional companies in other sectors. This process encourages a portfolio to own companies that are more likely to be incumbents with traditional business model. Instead, we group stocks by the long-term growth drivers we have identified in our investment research (illustrated in the Euler diagram opposite). This is a subjective process, but we believe it is more consistent with our view that the real risk in the portfolio lies in the growth opportunities identified for individual companies not playing out, rather than how index providers choose to classify companies.

We will also seek to build in views from people outside of fund management whom we admire and respect, to provide a genuinely differentiated perspective. This takes the form of a regular, formal external risk review.

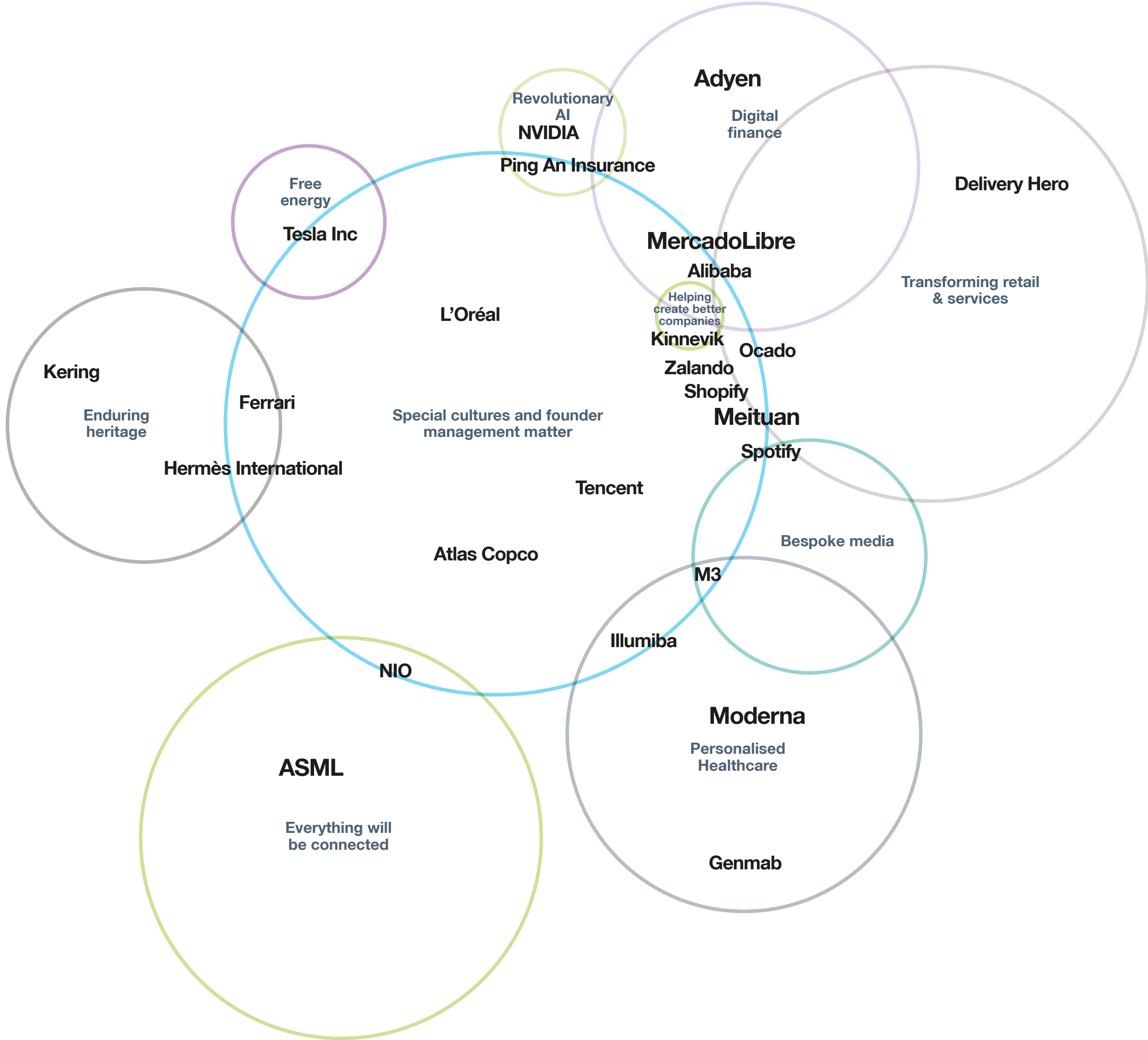
In addition, we will follow the investment guidelines below:

Strategy Characteristics

Style	Growth
Benchmark	ACWI ex US
Investment horizon	5 years +
Portfolio holdings	20–35
Holding size	Maximum 10% ATP*, limit 15%
Sectors	Minimum 5
Countries	Minimum 5, up to 15% in US equities, no EM limit

*At time of purchase

International concentrated growth portfolio



As at September 30, 2021.
Based on a representative portfolio.

Our team

Investment team biographies

Lawrence Burns

Lawrence is an Investment Manager of Baillie Gifford strategies that share a focus on transformative growth companies. He has been a member of the International Growth Portfolio Construction Group since October 2012 and took over as Deputy Chair in July 2019. Lawrence is also a co-manager of International Concentrated Growth and Global Outliers. He joined Baillie Gifford in 2009, spent time working in both the Emerging Markets and UK Equity Departments, and became a partner in 2020. Lawrence graduated BA in Geography from the University of Cambridge in 2009.

Paulina McPadden

Paulina joined Baillie Gifford in 2013. She has worked with regional and global equity teams and is an analyst in the International Growth Team and co-manager of International Concentrated Growth. Paulina graduated MA (Hons) Arabic & Politics from the University of Edinburgh in 2013 and is proficient or fluent in Arabic, French and Polish. She is a CFA Charterholder.

Spencer Adair

Spencer joined Baillie Gifford in 2000 and is an Investment Manager in the Global Alpha Team (since 2005) and Monks Investment Trust (since 2015). Spencer became an Investment Manager in the International Concentrated Growth strategy in September 2021. He has been a partner since 2013 and has also spent time working in the Fixed Income, Japanese, European and UK Equity Teams. Spencer managed the Investment Grade Long Bond Fund whilst being a Fixed Income Investment Manager and the European portion of wider Global portfolios whilst in the European Team. He has also spent time with our Emerging Markets Team. Spencer graduated BSc in Medicine from the University of St Andrews in 1997, followed by two years of clinical training in Edinburgh.

Client service team biographies

Hamish Maxwell

Hamish joined Baillie Gifford in 2017 and is a Client Service Manager in our Clients Department. Just prior to joining Baillie Gifford, he achieved an MBA from Cass Business School and was recipient of the EU Award. Earlier in life, Hamish also completed post-graduate Law at the University of Sussex, but a well-known economic event in 2008 encouraged him to pursue a different interest professionally, i.e., join the Royal Navy as a Commissioned Officer. Hamish served in aircraft carriers, mine-hunters and trident nuclear submarines and was awarded top-of-class by HRH Prince Edward.

Paul Taylor

Paul joined Baillie Gifford in June 2022 and is an investment specialist in the International Equities group. Prior to joining Baillie Gifford, he worked for the Sovereign Wealth Fund of Abu Dhabi in their European Equities Team. He has a PhD in Molecular Biology and is also a CFA charter holder.

Important information

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