



International Smaller Companies

Philosophy and Process

Baillie Gifford™

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All investment strategies have the potential for profit and loss. Past performance is not a guide to future returns.

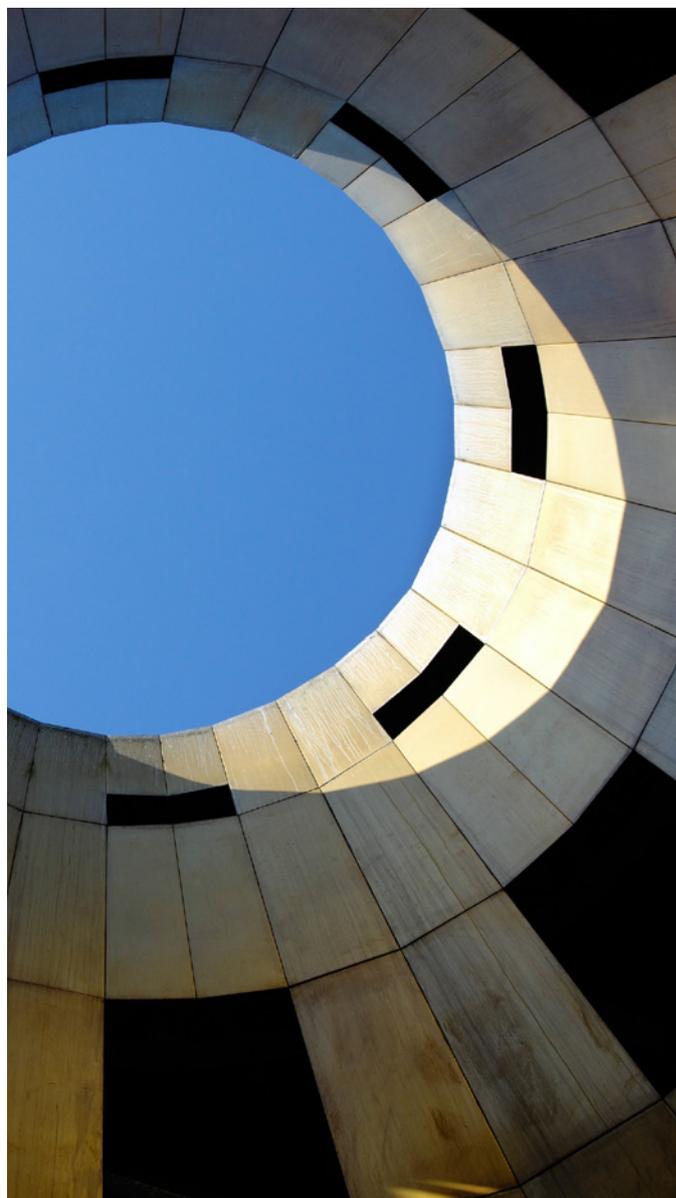
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All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

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Baillie Gifford – Clients come first

For over a century Baillie Gifford has been an independent investment management partnership, with the sole focus of delivering excellent investment returns to clients. We think this well-tested structure is our most important asset:

Patience

Our independence allows us to be long-term in everything we do: in our approach to investing, in the running of the business and in our client relationships.

Focus

Our structure allows us to prioritise our clients rather than external shareholders. We keep our business simple and focused solely on investment.

Alignment

Our unlimited liability partnership is rare among large investment businesses. It means our partners' interests are fully aligned with those of our clients: we only succeed if we meet our clients' long-term needs.

The partnership structure underpins our philosophy and process and is reflected in our culture and our collaborative approach to investing.



Our approach

We aim to provide our clients with excellent long-term investment returns by identifying high-quality smaller companies with underappreciated potential and owning them, as responsible shareholders, as they develop.

We believe that the challenges of investing in smaller companies are heightened, because they are relatively immature and often less well understood. At the same time their small size means the potential rewards of owning those that do succeed are also exaggerated. We are therefore convinced that smaller companies provide a fantastic opportunity for us to generate long-term investment returns for our clients.

Genuinely active investment management is only possible with a willingness to do things differently. For us this means a commitment to being Curious, Brave and Patient. We believe Baillie Gifford’s partnership structure and investment culture provides a really strong foundation on which to build such an approach.

The strategy is managed by a team of three investment managers, supported by four investment analysts. Two of the investment managers have worked on the strategy since inception. The investment managers take collective responsibility for all decisions of the strategy.

Our philosophy

We aim to identify and own companies with misunderstood growth potential by being Curious, Brave and Patient.

We know that over the long-term share prices will reflect the fundamental operating performance of a business. Some smaller companies will grow to many multiples of their current size, whilst others will fail. It follows that equity returns are asymmetric this means that while downside is capped at 100%, there is the potential to make many times the initial investment. We seek to embrace this to generate superior returns by investing in companies with excellent long-term growth potential.

Our process is built to identify and assess that potential and to own those companies where we think the probabilities of success are misunderstood by the market. This mis-pricing often arises from the heightened behavioural, analytical and informational challenges that smaller companies present because of their relative size. We are determined to exploit this opportunity through a commitment to being:

<p>Curious</p> <p>Winning companies of tomorrow are likely to be solving an existing problem. To appreciate this our analysis relies on a broad range of inputs. An investment approach built around narrow specialisms risks missing the forest for the trees.</p>	<p>Brave</p> <p>The true long-term potential of interesting smaller companies will be heavily disguised. This favours fundamental, and often highly qualitative, research. It also means having the bravery to step into an uncertain future.</p>	<p>Patient</p> <p>Many of the key challenges of investing are behavioural. Smaller companies will experience above average rates of evolution and bumps in the road. Patience is crucial. A constructive team environment and the right process enables that.</p>
<p>Generalists</p>	<p>Fundamental research</p>	<p>Collaboration</p>

Assessing and owning potential: process

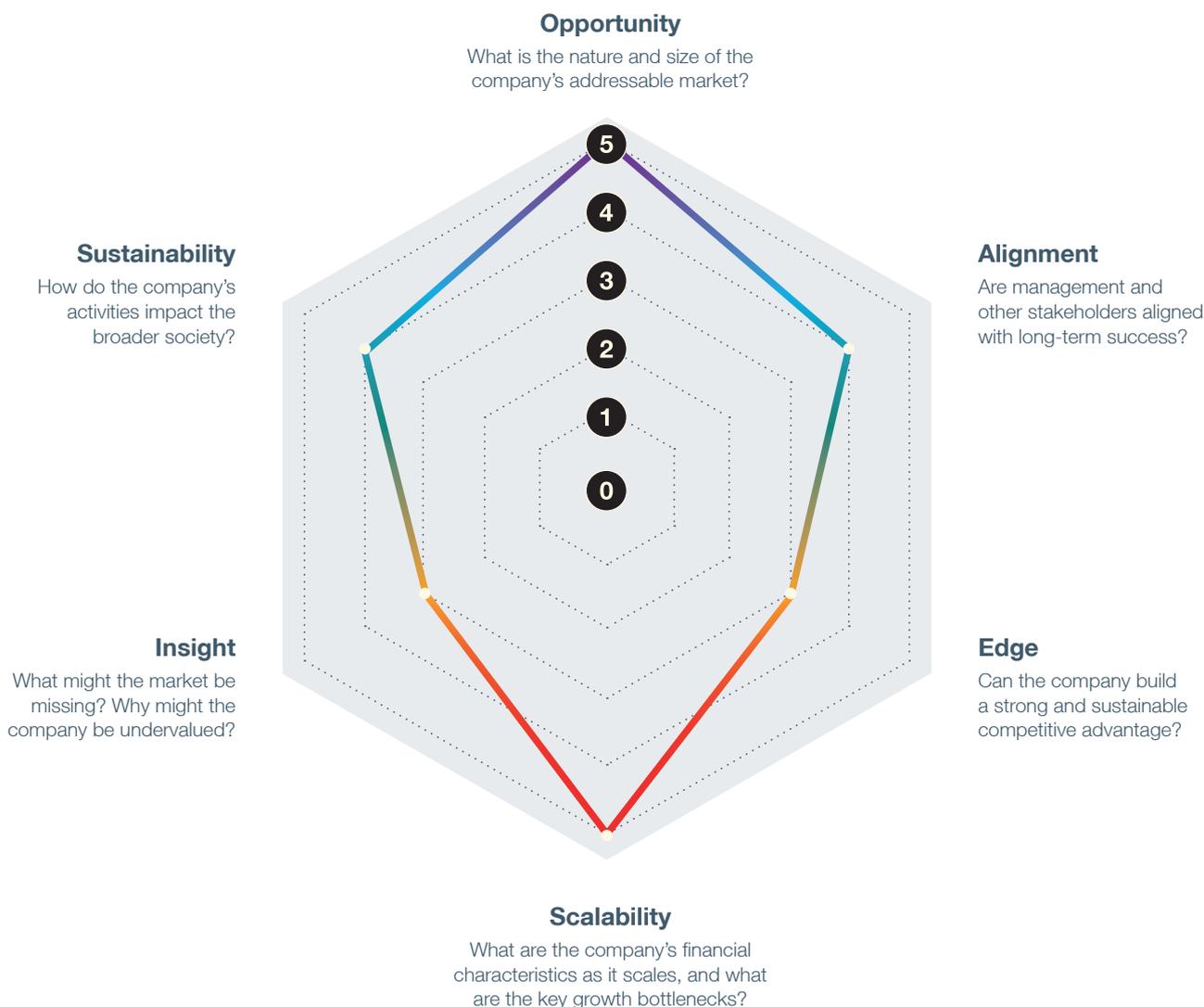
We believe that our ability to successfully implement our philosophy rests on the accumulation of many factors, from the diversity of backgrounds and academic disciplines of the people we recruit to our main investment location in Edinburgh. However, at its heart rests the stability of Baillie Gifford's partnership structure which supports our collaborative approach to investing. We believe that we will best serve our clients by building a portfolio through a process that mixes individual creativity and conviction with the perspective and support of a team.

Idea generation

Given our philosophy, we ignore the index and search only for the relatively rare positive outliers within our international smaller companies universe. Doing so relies on a process that combines our individual curiosity with a diversity of sources, including the wide range of other Baillie Gifford investment specialists. Every investment manager at the firm is an analyst first and foremost.

Assessing potential

The potential of each prospective investment is then rigorously researched and assessed. Potentially great companies can come in many forms but are all likely to possess a few core attributes. Consideration of these key factors is structured through a consistent research framework:



Discussion and debate

We believe that incorporating the diverse perspectives of others leads to better decisions. The perfect company does not exist and a robust collective assessment of the strengths and weaknesses of each investment candidate, aided by our framework, is a vital element of our process. This is continual but coalesces at a formal weekly stock discussion.

Decision-making

Any idea which still has the enthusiastic backing of a sponsor can be put forward for consideration by the investment team, who have collective responsibility for the portfolio. Given our search for positive outliers, we believe it is vital to avoid consensual decision-making and instead back individual enthusiasm, subject to them attracting the support of a seconder. Appropriate sizing depends on an assessment of the relative risk and reward of the idea, led by the sponsor.

Finally, any holding, plus any ideas that did not quite make the grade initially, will be continually monitored against our framework through ongoing research and engagement with the company. Consistent with our philosophy, we will hold and support businesses through the inevitable short-term twists and turns of development. However, a material change to any of the factors of the framework leads to a re-examination of the investment case and may lead to us selling the stock.

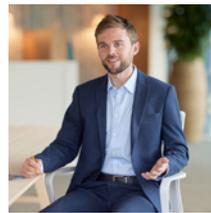
Portfolio

The output of this clear and consistent process is the portfolio. Potentially great companies will come in a wide variety of forms, as they address a large market opportunity in different ways. That is why we select them all on an individual bottom-up basis, albeit they will be linked together by the factors of our research framework.

International Smaller Companies Team



Brian Lum
18 years' experience
18 years with Baillie Gifford



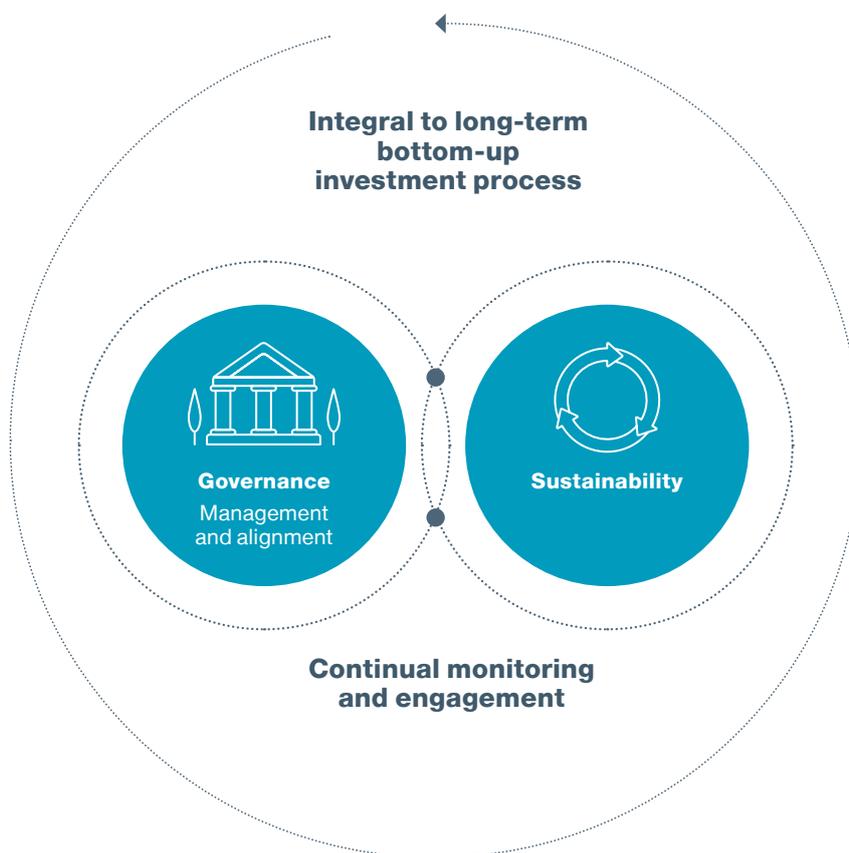
Charlie Broughton
10 years' experience
10 years with Baillie Gifford



Remya Nair
6 years' experience
6 years with Baillie Gifford



Stewardship

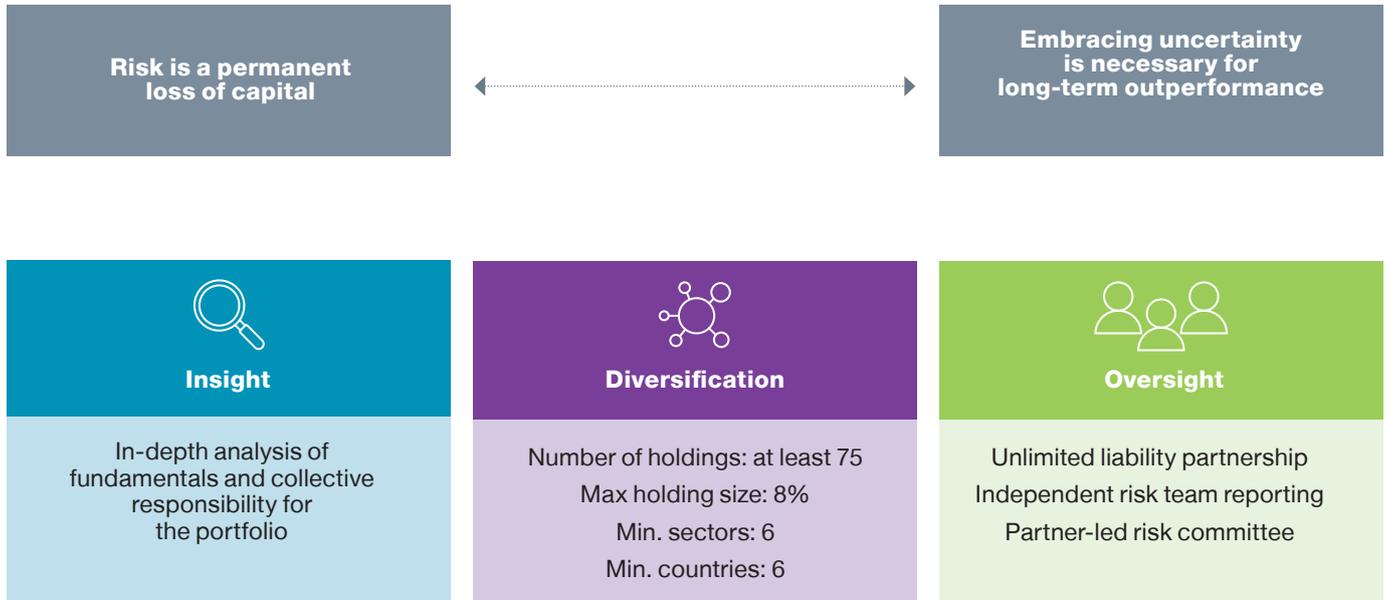


On behalf of our clients we firmly intend to be long-term co-owners of businesses that benefit from structural growth opportunities. Thoughtful and open-minded consideration of Environmental, Social and Governance (ESG) is therefore implicit in all that we do: a business which is poorly managed, or which treats its employees or wider community badly is extremely unlikely to flourish over our 5–10 year investment horizon.

However, to ensure the correct level of rigour we have also incorporated governance and sustainability principals into our process more explicitly. Their place in our research framework ensures they are duly considered from initial idea generation through to ongoing engagement with a holding. We do not believe many of these issues can be tackled with neat rules or wholesale exclusions. Instead, as with any of the other factors of the framework, we use fundamental analysis and a recognition that there are no right answers, merely points on a spectrum to be discussed with an open and enquiring mind.

We hope that others, particularly our clients, will engage with and challenge us on this. But in the first instance that role falls to our ESG analyst, who is an integrated member of the team. They attend weekly stock discussions as well as the investment team meetings and provide in-depth, specialist research. The analyst continually monitors the portfolio, placing particular attention on the sustainability and alignment factors of the research framework as well as Baillie Gifford's Stewardship Principles. Wherever in the process potential weaknesses and/or significant opportunities are highlighted, we aim to categorise their materiality and to undertake further research and engagement wherever possible and appropriate. We believe that taking this holistic and integrated approach to analysis helps to better assess the long-term value creation potential of investments.

Risk



As active managers, we believe we are employed to take risk; the key is ensuring that these risks are intended, proportional and potentially well-rewarded. We separate risk from volatility and view shorter-term volatility as part of our opportunity.

Our risk process hinges on **Insight** from fundamental research and our process of constantly questioning and challenging the investment case both before and after purchase. Our portfolio will have at least 75 holdings. Our belief is this makes it possible to balance in-depth knowledge of individual companies with sufficient diversification. We are agnostic to the index and think about any thematic exposures fundamentally.

We also rely on **Oversight** from continual engagement with our independent risk team, including a formal bi-annual risk reporting process, and the supervision of the Investment Risk Committee. Ultimately, we believe the unlimited liability partnership structure of Baillie Gifford drives a considered approach to risk and provides powerful alignment with our clients.

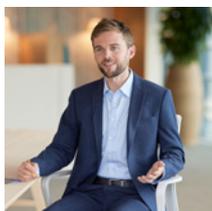
Team biographies

Investment managers



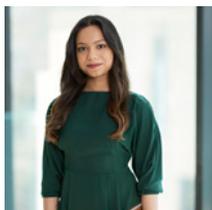
BRIAN LUM
Lead Investment Manager

Brian joined Baillie Gifford in 2006. He is head of the Smaller Companies Team and lead investment manager of the International Smaller Companies Strategy. He is also a member of the International Growth Portfolio Construction Group. He is a CFA Charterholder and graduated with an MSc and BA (Hons) in Physics from the University of Cambridge in 2006.



CHARLIE BROUGHTON
Deputy Investment Manager

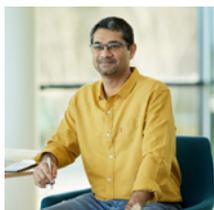
Charlie joined Baillie Gifford in 2014. He is deputy investment manager of the International Smaller Companies Strategy and co-manager of the Pan European Smaller Companies Strategy. He is a CFA Charterholder and graduated MA (Hons) in Medieval History and Archaeology from the University of St Andrews in 2013.



REMYA NAIR
Deputy Investment Manager

Remya joined Baillie Gifford in 2018. She is deputy investment manager of the International Smaller Companies Strategy and co-manager of the Pan European Smaller Companies Strategy. She graduated MSc (Hons) in International Development Management in 2018 and BSc (Dual Hons) in Social Policy and Sociology in 2017 from the London School of Economics.

Investment Analysts



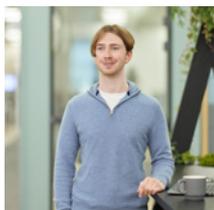
PRAVEEN KUMAR
Investment Analyst (Japan)

Praveen joined Baillie Gifford in 2008. He has worked on the International Smaller Companies Strategy since inception and has responsibility for Japanese smaller companies within the portfolio. He is manager of the Japanese Smaller Companies Strategy, the Shin Nippon Investment Trust Plc, and deputy manager of the Japan Trust Plc. Before joining Baillie Gifford he worked for FKI Logistex. Praveen graduated BEng in Computer Science from Bangalore University in 2001, and completed an MBA from the University of Cambridge in 2008.



TOM FENTON
Investment Analyst

Tom joined Baillie Gifford in September 2017. He is an investment analyst in the Smaller Companies Team. He previously worked in the Global Discovery, Japan, Global Income Growth and Multi Asset Teams. Tom graduated BA (Hons) in History from the University of Durham in 2017.



DAVID ERSKINE
Investment Analyst

David joined Baillie Gifford in 2022. He is an investment analyst in the Smaller Companies Team. David graduated MA (Hons) in Philosophy from the University of St Andrews in 2020 and studied an MPhil in Management at the University of Cambridge in 2021.



RACHAEL FROST
Investment Analyst

Rachael joined Baillie Gifford in 2023. She is an investment analyst in the Smaller Companies Team. She previously worked as a market reporter at Argus Media covering European gas markets, and prior to that obtained an MA in English Literature from the University of St Andrews.

ESG Analyst



TOM CLARK
ESG Analyst

Tom is an ESG analyst in the International Alpha and International Smaller Companies teams. Prior to joining Baillie Gifford in 2022, Tom was an equity research analyst in the UK Midcap and Business Services teams at Barclays Investment bank. He joined Barclays on the military veterans' internship programme in 2018, before which he served as a commissioned officer in the British Army. Tom graduated with a BA in History from Oxford University.

