

# International Alpha

Philosophy and Process



## Regulatory information

### Important information and risk factors

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co.

Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK. Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018 and is authorised by the Central Bank of Ireland. Through its MiFID passport, it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions ('FinIA'). It does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. It is the intention to ask for the authorisation by the Swiss Financial Market Supervisory Authority (FINMA) to maintain this representative office of a foreign asset manager of collective assets in Switzerland pursuant to the applicable transitional provisions of FinIA. Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

Persons resident or domiciled outwith the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

### Potential for profit and loss

All investment strategies have the potential for profit and loss.

This document contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned.

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

The images used in this document are for illustrative purposes only.

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

The images used in this document are for illustrative purposes only.

### Financial intermediaries

This document is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

# Baillie Gifford™

Contents	Summary	02
	A stable firm	03
	Philosophy	04
	Why invest in growth?	06
	Shades of growth	08
	Team-based approach	09
	Investment process	10
	Environmental, social and governance (ESG)	12
	Risk	13
	Our advantages	15
	Biographies	16

# Summary

## The International Alpha Strategy has a distinctly long-term growth philosophy

We believe the best way to navigate an uncertain world is to build a diversified portfolio of outstanding businesses, with deep competitive advantages, and excellent stewardship. These are businesses that can withstand economic cycles and take advantage of unpredictable events. We focus all our effort on finding these growth stocks through bottom-up research; building a portfolio that reflects our conviction in the underlying investment cases and holding on for the long term so as to capture the full benefits of compounded growth.

### **Key features of the strategy:**

- A long-term perspective, resulting in low portfolio turnover
- Bottom-up stock picking supported by in-depth fundamental analysis
- A quality growth orientation
- A patient, repeatable process drawing on the best ideas from firm-wide research
- A portfolio of 70-110 stocks

# A stable firm

Over one hundred years after its foundation Baillie Gifford remains an unlimited liability partnership wholly owned by the people who invest for and look after our clients.

Founded in 1908, we are completely independent, focused solely on investment, and we act purely in the long-term interests of our clients. We invest in our business through good times and bad, and have regularly closed successful strategies in order to maintain the highest possible service levels to existing clients.

**We are completely independent, focused solely on investment**

Our partners' role is to be stewards of the business for future generations. The prospect of ownership helps us attract and retain talented people with a long-term outlook. People tend to join and stay with us for the rest of their careers, meaning the next generation of partners is already working in the firm. We measure our success by the service we deliver to our clients and by the longevity of the relationships that this creates – our longest standing client has been with us for over 100 years.

We believe stability underpins our ability to deliver on our promises. Our investors have time to think. We are able to produce in-depth, long-term research and to respond thoughtfully to fundamental opportunities rather than react impulsively to short-term noise. Stability of the firm also means we are able to deliver the highest levels of client service and provide clients with the reassurance that the firm they hire will continue to deliver for years to come.



# Philosophy

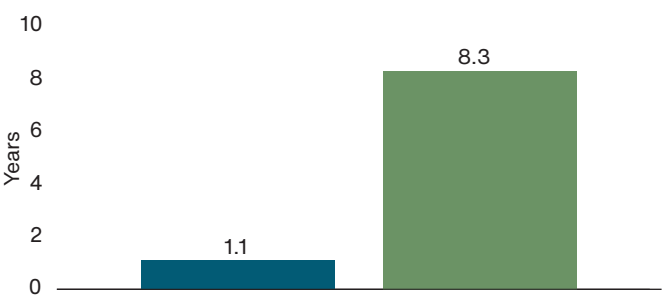
A simple, enduring philosophy built upon three core beliefs

## 01

### Long-term

We believe that investing for the long term is our greatest edge. Our research looks 5-10 years ahead, and our average holding period is many times that of the market.

**We hold stocks on average 8x longer than the market**

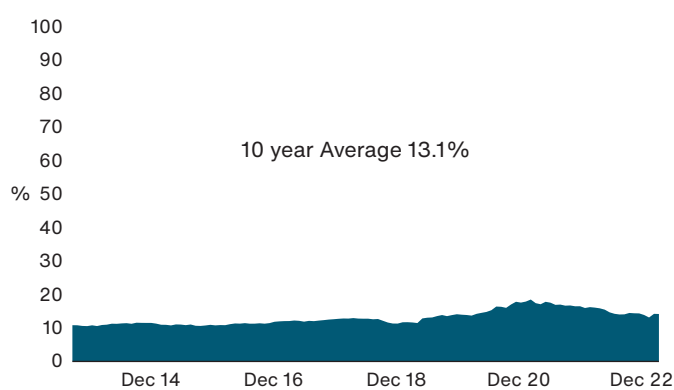


Source: Baillie Gifford & Co. As of December 31, 2022.  
Based on 10 year turnover of a representative portfolio.  
Source: World Bank. \*Time horizons based on Baillie Gifford estimates using World Bank data of world stock turnover 2010–2020.

## 02

**Stock-driven**

We believe to outperform you have to be different. We choose our investments according to the strength of the opportunity, irrespective of domicile or weighting in any index. This leads to a highly differentiated portfolio with a consistently low overlap versus the benchmark.

**Low portfolio overlap with the benchmark**

Source: Baillie Gifford & Co and MSCI. Based on representative portfolios.

## 03

**Growth**

We believe great growth companies are consistently underappreciated by equity markets. We focus on identifying businesses that can sustainably grow profits and cashflows faster than the market over meaningful time frames.

**Consistently higher earnings growth**

Based on representative portfolios. 5 year historic earnings growth.

# Why invest in growth?

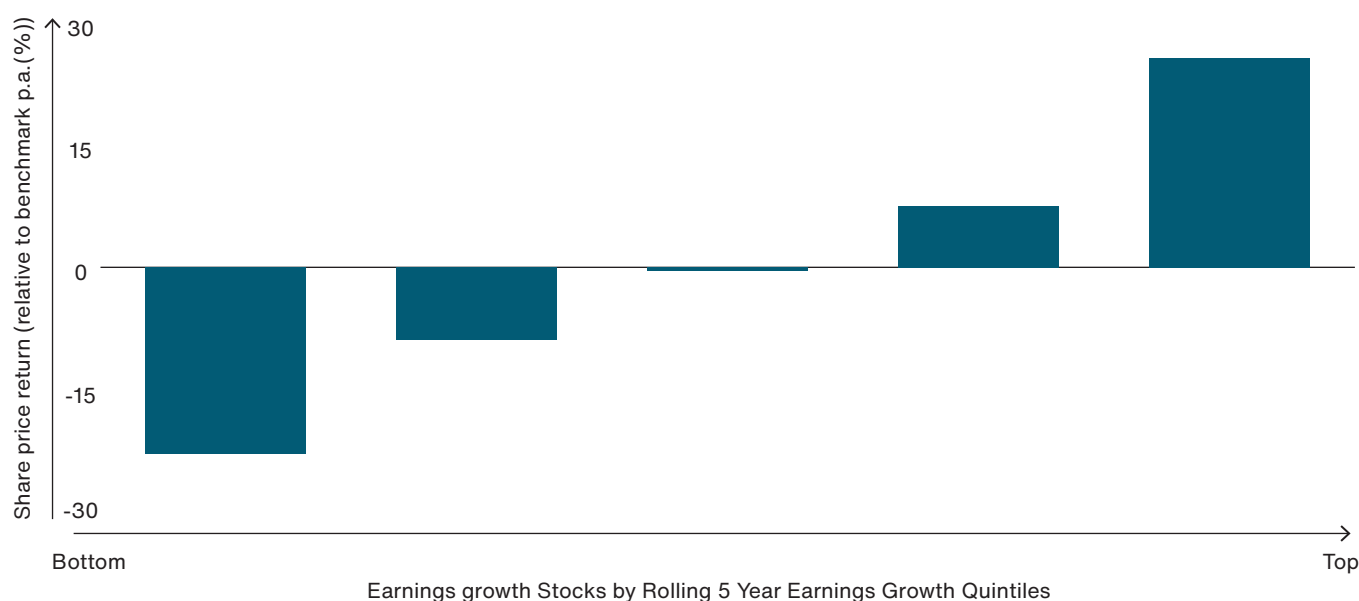
Share prices follow fundamentals over meaningful time periods.

We are stock pickers, looking for businesses that are able to deliver earnings growth over extended periods. More than 90% of the total returns from our portfolio over rolling 5 year periods since inception have come from earnings growth, rather than multiple expansion, and our analysis shows a strong, direct correlation between earnings growth and relative returns throughout equity markets.

The chart below shows the dollar denominated earnings profile of the international equity universe since 1990. It shows that stocks with the highest earnings growth have delivered the highest share price returns relative to the benchmark.

This relationship has been consistent across a variety of market conditions and we believe that companies with above average earnings growth will continue to be rewarded.

## Fundamentals drive share prices over the long term



Global Ex US Universe Delivered Median Relative Returns by Earnings Growth Quintiles Rolling 5 Year Horizons (1990 - 2018)



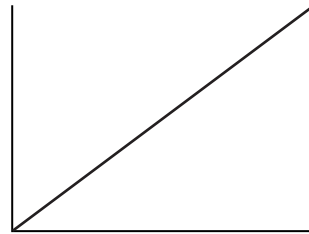




# Shades of growth

Public equity markets are increasingly biased towards the short term, providing clear and persistent opportunities for long-term active managers to add value. To illustrate this, we have characterised four broad types of growth company, each of which presents long-term investors with an opportunity due to persistent market inefficiencies we can exploit.

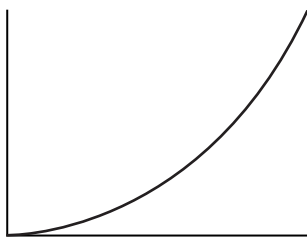
## Quality compounders



These are businesses with particularly durable competitive advantages that reinvest their cash flows to reinforce their strengths and extend their market reach. They tend to grow steadily over long time-frames. The market underestimates the power of steady compounding.

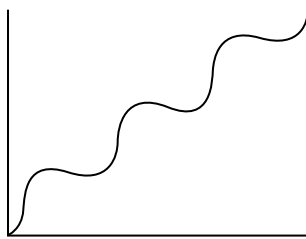
## Not all growth companies look the same

### Rapid growers



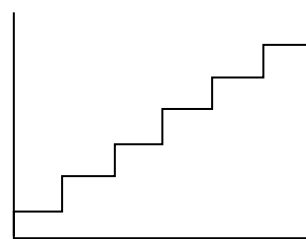
Rapid growth companies expand quickly and are often capital light, making the growth astonishingly valuable. The market finds these businesses with extreme outcomes hard to analyse or value, and tends to focus on what could go wrong, missing the long-term value creation.

### Through-cycle winners



These companies take share through the cycle as a result of an enduring advantage, emerging stronger from downturns that hurt their peers more. The market tends to speculate on the cycle, trying to time the ups and downs. We believe the better strategy is to buy and hold the winners.

### Capital allocators



Capital allocators grow through acquisition or lumpy investment in organic growth, with management teams who are willing to withstand short-term pain for long-term gain. The market finds it hard to value what it can't model, so consistently misprices the value of transformative capital allocation.

# Team-based approach

A group can make better decisions than an individual when it brings together diverse perspectives to meet a common goal.

The Portfolio Construction Group (PCG) brings together six cognitively diverse individuals united by the same investment philosophy. Three of the PCG sit on the International Alpha central research desk and three are embedded within specialist teams across the investment floor. The portfolio is assembled in a holistic manner, combining specialist knowledge with an ability to compare businesses globally. The PCG takes collective ownership and responsibility for the performance of the strategy. This is reinforced by an incentive structure that only rewards outperformance of the whole portfolio over a meaningful period (five-year rolling periods of relative performance).

The team sits upon a foundation of firmwide research produced by c.180 investment professionals principally located in our Edinburgh office. We hire graduates from a broad range of backgrounds and rotate them through different investment teams over a five year training programme. This enables the development of perspective and context, and encourages collaboration across teams from an early stage. Every investor at Baillie Gifford is first and foremost an analyst, responsible for producing in-depth proprietary investment research and sharing it with colleagues across the firm.



**Jenny Davis<sup>†</sup>**  
International Alpha  
14 years' experience



**Tom Walsh<sup>†</sup>**  
International Alpha  
19 years' experience



**Steve Vaughan**  
International Alpha  
11 years' experience



**Andrew Stobart**  
Emerging Markets  
32 years' experience



**Donald Farquharson<sup>†</sup>**  
Japan  
35 years' experience



**Chris Davies**  
Europe  
11 years' experience

# Investment process

A patient and repeatable process, providing the foundation for high conviction, bottom-up stock picking.

The International Alpha investment process aims to produce good long-term performance by combining the specialist knowledge of Baillie Gifford's investment teams with the ability to compare businesses globally.

The process is designed to identify businesses with large, durable growth opportunities and sustainable competitive advantages that are run by management teams we can trust to make the most of their potential.

Our idea generation harnesses a vast array of diverse information sources. We cast the net widely in our search for new insights, not only meeting management and reading the standard discourse on companies, but also speaking with academics and industry experts, or commissioning specific pieces of investigative research. We take forward ideas by writing our own in-depth research pieces, examining all investments against a consistent framework to test the durability of the investment thesis.

After a piece of research is written, it is discussed and debated by the PCG, bringing together different perspectives to develop, challenge and contextualise. A buy decision is made when an idea gains a sponsor and a seconder, avoiding 'groupthink' by enabling non-consensus decision-making and backing each others' judgement. It is this patient and repeatable investment process which is the foundation of our ability to be high-conviction, bottom-up stock pickers over long time frames.

The group meets regularly to discuss ideas and their level of conviction in existing holdings. Typically, individual stocks are discussed at weekly meetings while a quarterly meeting focuses on the portfolio as a whole, looking to identify themes and portfolio exposures which may be over or under-represented. Representatives from ESG resource, Investment Risk, Research & Analytics and the Clients Department provide challenge to ensure client concerns and investment restrictions are integrated into the construction of the portfolio.



## Our investment research framework

### **Growth**

How much can this company grow over the next 5-10 years?

### **Competitive advantage**

What is the edge and will it endure?

### **Governance**

Are management sensible guardians of client's capital and will they realise the opportunity?

### **Sustainability**

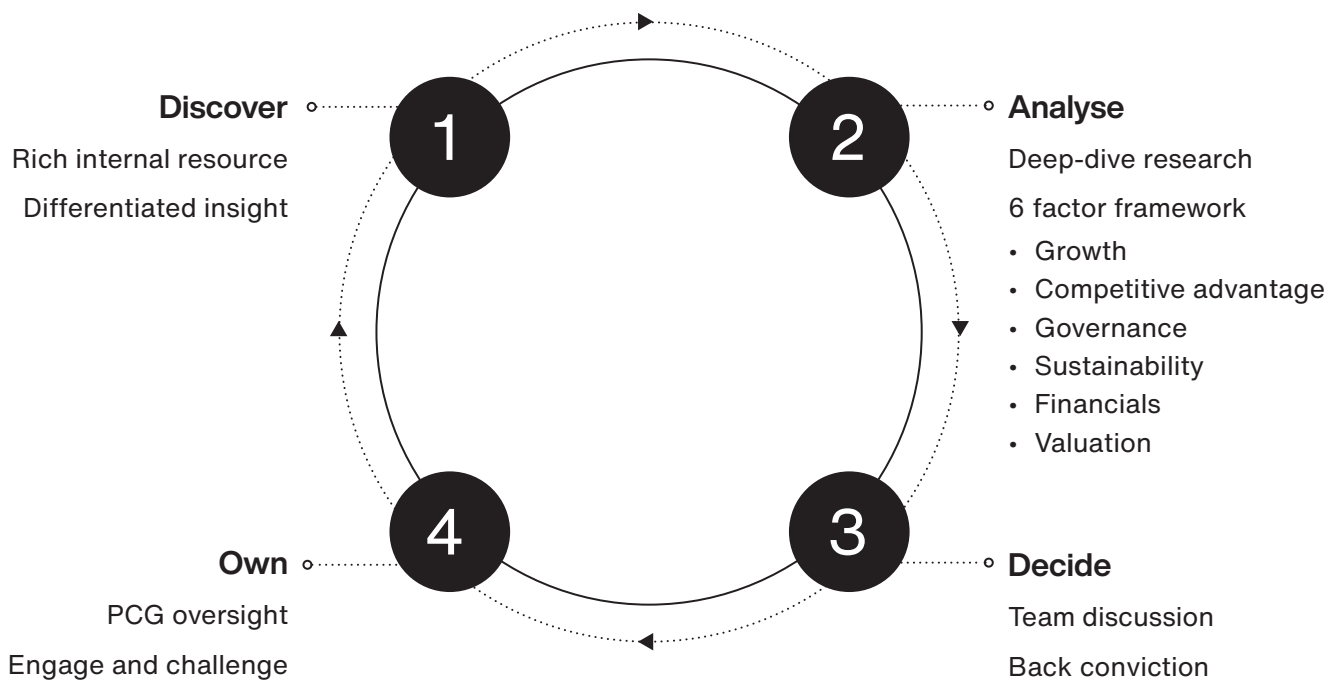
Does the business have sustainable business practices?

### **Financials**

What is the cost of and return on realising the opportunity?

### **Valuation**

Is it attractively valued?  
Where will valuation be in 5 years?





# Environmental, social and governance (ESG)

## We consider ourselves owners rather than renters of shares

The PCG have an ESG analyst who provides a rigorous assessment of each stock discussed from a governance and sustainability lens, challenges the investment managers from an ESG perspective and helps the PCG to effectively engage with portfolio holdings. They also provide pre-buy analysis and contributes insightings to weekly stock discussions and quarterly portfolio reviews. These views are incorporated into the investment decision making process and areas of potential corporate engagement identified from a very early stage. We believe that a company cannot be financially sustainable in the long run if its approach to business is fundamentally out of line with societal expectations. We have a fiduciary duty to be stewards of our clients' capital and to engage constructively with companies as long-term shareholders.

Our engagements follow a set of core principles:

- Prioritisation of long-term value creation
- A constructive and purposeful board
- Fair treatment of all stakeholders
- Long-term focused remuneration with stretching targets
- Sustainable business practices

We make companies aware of our stewardship principles and our typical holding periods, engaging in ways to improve and support their long-term thinking. You can read more about our principles, the impact of our engagement activities, and our voting decisions in our annual Stewardship Report.

# Risk

A pragmatic approach to investment risk built upon in-depth analysis, independent oversight and challenge.

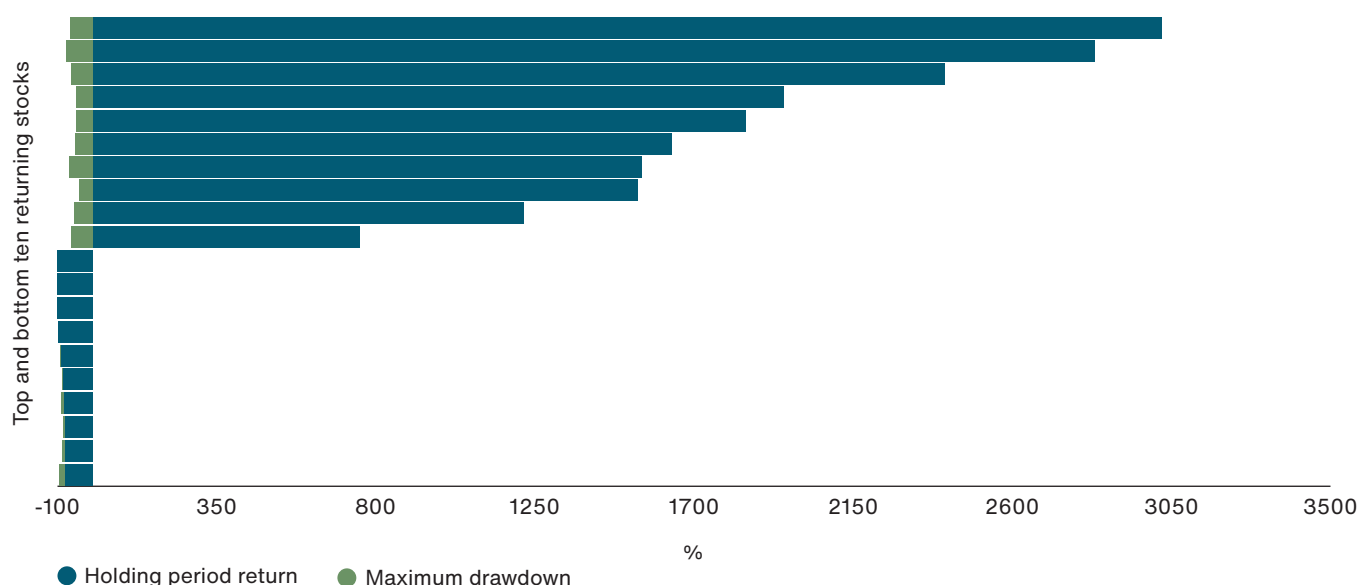
The stock market is a complex adaptive system which is inherently unpredictable and frequently volatile. Trying to distil risk down to a single measure derived from historic correlations implies that stocks behave in a predictable manner in relation to the market. This is not the case.

To ensure that clients are not exposed to unacceptable risks, our process incorporates the following checks and balances:

- A stable, experienced team, with a consistent philosophy, supported by a stable owner
- Proprietary, in-depth, fundamental research assessed using a consistent framework
- Pragmatic internal guidelines that ensure appropriate levels of portfolio diversification
- Baillie Gifford's Investment Risk, Analytics & Research Department and Investment Risk Committee provide independent oversight and challenge

Having a low overlap with the index and sticking to our long-term philosophy means that occasional volatility is inevitable. As the chart here shows, over long holding periods it is entirely normal for even the most successful of growth investments to experience setbacks. Such short-term share price falls can unquestionably be painful, though our willingness to tolerate occasional volatility rather than hide from it has added significant value for our clients over time.

## Holding period return versus maximum share price fall for top and bottom ten holdings



Source: StatPro. Top and bottom ten stock returns for the International Alpha Composite from inception September 30, 2002 to December 31, 2022, US dollars. Some stocks were only held for part of the period.

# Our advantages

## **Stability**

Baillie Gifford has over a hundred years of investing history and has only ever grown organically. We believe that stability underpins our ability to deliver on our promises and provides our clients with reassurance that the firm they hire will continue to deliver for years to come.

## **Independence**

The business is wholly owned by its partners, all of whom work within the business. This means we have no external shareholders with competing demands that might conflict with our mission to provide industry-leading investment performance and client service.

## **Time horizon**

The market is least efficient at valuing long-term growth potential due to recurring failings that we believe can be exploited to our clients' advantage. Our history and ownership provide a unique foundation for long-term investment, supporting an average holding period that is many times that of the market.

## **In-depth research**

Our research focuses on those qualities that make a business able to deliver durable earnings growth. Every investor at Baillie Gifford is first and foremost an analyst, and all research is shared across the firm, contributing to a wellspring of institutional wisdom.

## **Client focus**

We pride ourselves on building enduring relationships and providing the highest level of client service. We invest in our business through good times and bad and have regularly closed successful strategies in order to maintain the highest possible service levels to existing clients.





# Biographies



**Jenny Davis\***

Jenny is an investment manager in the International Alpha Team. She joined Baillie Gifford in 2011 and has been a member of the PCG since 2016. She joined the partnership in 2022. Jenny worked on two of our Global Equity strategies, having started her career at Neptune Investment Management. Jenny graduated MA in Music from the University of Oxford in 2008, and latterly undertook postgraduate studies in Psychotherapy at the University of Edinburgh.



**Tom Walsh\***

Tom is an investment manager in the International Alpha Team. He joined Baillie Gifford in 2009 and has been a member of the PCG since 2018. He joined the partnership in 2022. Tom has experience on UK, European and global opportunities teams. Before joining Baillie Gifford, Tom worked at Fidelity International, Merrill Lynch and Deloitte & Touche. He graduated LLB (Hons) in Law & Economics from the University of Edinburgh in 1999 and is both CFA and ACA qualified.



**Steve Vaughan**

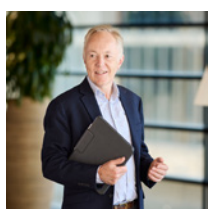
Steve is an investment manager in the International Alpha Team. He joined Baillie Gifford in 2012 and has been a member of the PCG since 2022. Steve previously worked as an investment manager in the Smaller Companies Team. Prior to joining Baillie Gifford, Steve was an Officer in the British Army for nine years. He graduated BA (Hons) in Jurisprudence from the University of Oxford in 2001 and MA in International Relations from the University of Exeter in 2012. Steve is also a CFA Charterholder.

\* Partner



**Andrew Stobart**

Andrew is an investment manager in the Emerging Markets Equity Team. He joined Baillie Gifford in 1991, and prior to joining the team in 2007, he has also spent time working in our UK, Japanese, and North American equity teams. Andrew has been a member of the International Alpha PCG since 2008 and has been involved in running the emerging markets portion of the Managed Fund since 2012. Prior to joining Baillie Gifford, he previously spent three years working in investment banking in London. Andrew graduated MA in economics from the University of Cambridge in 1987.



**Donald Farquharson\***

Donald heads the Japanese Equities Team. Donald is the co-manager for the Japan Growth Strategy (and related Growth Strategy segregated accounts) which he has run since its inception on 31 December 2009. He is also a member of the International Alpha PCG. Donald joined Baillie Gifford in 2008 and became a partner in 2017. Donald has over 30 years' investment experience dedicated almost entirely to Japanese equities: He spent 20 years working for Schroders as a Japanese specialist and latterly Head of the Pan Pacific Equity Team and manager of the Schroder Japan Growth Fund plc. Between 1991 and 1995, he headed Schroders' research team in Tokyo. He graduated with MA (Hons) in Arabic Studies from the University of St Andrews in 1987 and is a CFA Charterholder.



**Chris Davies**

Chris is an investment manager in the European Equity Team and has been a member of the International Alpha PCG since 2021. He joined Baillie Gifford in 2012. He graduated BA (Hons) in Music from the University of Oxford in 2009 and gained a MMus in Music Performance from the Royal Welsh School of Music and Drama in 2010, as well as an MSc in Music, Mind and Brain from Goldsmiths College in 2011.

\* Partner



## Important information and risk factors

### Important information Hong Kong

Baillie Gifford Asia (Hong Kong) Limited 百利亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 and Type 2 licence from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 百利亞洲(香港)有限公司 can be contacted at Suites 2713–2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong, Telephone +852 3756 5700.

### Important information Japan

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

### Important information Australia

Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a 'wholesale client' within the meaning of section 761G of the Corporations Act 2001 (Cth) ('Corporations Act'). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this document be made available to a 'retail client' within the meaning of section 761G of the Corporations Act. This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

### Important information South Africa

Baillie Gifford Overseas is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

### Important information North America

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

### Important information Oman

Baillie Gifford Overseas Limited ('BGO') neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently, BGO is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. No authorization, licence or approval has been received from the Capital Market Authority of Oman or any other regulatory authority in Oman, to provide such advice or service within Oman. BGO does not solicit business in Oman and does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. The recipient of this document represents that it is a financial institution or a sophisticated investor (as described in Article 139 of the Executive Regulations of the Capital Market Law) and that its officers/employees have such experience in business and financial matters that they are capable of evaluating the merits and risks of investments.

**Important information Qatar**

The materials contained herein are not intended to constitute an offer or provision of investment management, investment and advisory services or other financial services under the laws of Qatar. The services have not been and will not be authorised by the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or the Qatar Central Bank in accordance with their regulations or any other regulations in Qatar.

**Important information Israel**

Baillie Gifford Overseas is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This document is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

**Important information South Korea**

Baillie Gifford Overseas Limited is licensed with the Financial Supervisory Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.







[bailliegifford.com/internationalalpha](https://bailliegifford.com/internationalalpha)



Calton Square, 1 Greenside Row, Edinburgh EH1 3AN  
Telephone +44 (0)131 275 2000

Copyright © Baillie Gifford & Co 2024.