

GLOBAL ALPHA

PHILOSOPHY AND PROCESS



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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.

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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. 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 Investment Management (Europe) Limited (‘BGE’) relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

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IMPORTANT INFORMATION QATAR

This strategy is only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved. This does not constitute an offer to the public and is for the use only of the named addressee and should not be

given or shown to any other person (other than employees, agents, or consultants in connection with the addressee’s consideration thereof). Baillie Gifford Overseas Limited has not been and will not be registered with Qatar Central Bank or under any laws of the State of Qatar. No transactions will be concluded in your jurisdiction and any inquiries regarding the strategy should be made to Baillie Gifford.

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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.

POTENTIAL FOR PROFIT AND LOSS

All investment strategies have the potential for profit and loss. Past performance is not a guide to future returns. It should not be assumed that recommendations/transactions made in the future will be profitable or will equal performance of the securities mentioned.

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.



CONTENTS

Baillie Gifford	4
Our Competitive Advantages	4
Global Alpha Characteristics	5
Investment Philosophy	6
Research and Investment Process	7
Portfolio Construction	8
Risk	9
Team Biographies	10

BAILLIE GIFFORD



Baillie Gifford is one of the UK's largest private investment managers. The firm was founded in 1908 in Edinburgh where it continues to have its headquarters. The firm is a private partnership wholly owned by the current partners who all work within the business. The partnership structure affords the company significant stability and independence which means we focus on the best interests of our clients. Our sole business is investment management with more than half of funds under management in global or international equity portfolios.

OUR COMPETITIVE ADVANTAGES

PEOPLE

Our people are fundamental to our success, and our partnership structure brings sustainable advantages in the recruitment and retention of staff.

Baillie Gifford's partnership structure has provided the foundation for an enviable record of corporate stability. It is also a significant factor in our success in attracting and retaining the very best investment talent. Our selection policy is based on intelligence rather than allegedly relevant specialisation, leading to recruitment of individuals from a wide range of academic disciplines. By training our analysts and investment managers in-house we manage to combine a common culture with an atmosphere that encourages vigorous debate. The firm's values and beliefs are clearly communicated and, coupled with low staff turnover and long service, the firm has been able to retain a team spirit whilst growing steadily in recent years.

INVESTMENT RESEARCH INFORMATION

We believe that whilst access to information is important to an investment manager, how we use that information is more so.

We recognise that all investment institutions have access to the same information and that it is our analysis of this information which adds value for our clients. In addition, we gain insights into business models and the competitive advantages of companies by attending around 1,600 company meetings each year. Company meetings are key to our idea generation, research and stock selection process as they help us understand a company in greater depth. We are cognisant of the pitfalls of confirmation bias and market noise. Rather than being guided by the mood of the market, we think independently and make more informed stock picking decisions for the long-term benefit of our clients.

LOCATION

Having the majority of our decision makers in Edinburgh enables us to share views and ideas easily and efficiently. In addition to this, our common approach to research across departments helps provide an outstanding framework to allow us to select stocks effectively on a global basis.

GLOBAL ALPHA CHARACTERISTICS



Global Alpha is a long-term global equity growth strategy. Stock selection is bottom-up with a focus on fundamental analysis. The portfolio, investing in c. 100 stocks, is well diversified and very different from the index. Our Global Alpha investment managers draw on the broad capabilities of over 100 research analysts and insights of the wider Baillie Gifford investment teams.

Style	Growth
Benchmark	MSCI All Country World Index (ACWI)
Investment time horizon	5 years plus
Performance objective	To outperform the MSCI All Country World Index by 2–3% per annum over rolling five-year periods, gross of fees.
Number of stocks (guideline range)	70–120
Investment Guidelines	
Stocks	Maximum 6%, no minimum
Industries	Minimum 15 industries Maximum 50% in top four
Regions	Maximum benchmark plus 20% No minimum

*Before management fees. 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.

A DEDICATED TEAM OF THREE INVESTMENT MANAGERS

Spencer Adair, Malcolm MacColl and Charles Plowden form the core Global Alpha investment team. All three investment managers are partners of the firm, have significant experience investing across the world's equity markets and have all been involved with the strategy since its inception back in 2005. They have full ownership and accountability for all portfolio decisions, and Global Alpha is their only portfolio construction responsibility.

'BOTTOM-UP' GROWTH INVESTING WITH A GLOBAL PERSPECTIVE

Stocks are picked on the basis of fundamental attractions, irrespective of location. Industry and regional exposure are a residual of the stock selection process. The focus is on companies that can deliver above-average earnings growth.

A GENUINELY ACTIVE PORTFOLIO

The Global Alpha portfolio is very different from the index with an 'Active Share' (defined as the percentage of the portfolio that does not overlap with the index) of c. 90%. This underpins our confidence in meeting the performance objective.

A LONG-TERM INVESTMENT PERSPECTIVE

We are investors, not speculators. We expect annual turnover to typically be less than 20%, implying holding periods for each stock of over five years on average.



INVESTMENT PHILOSOPHY

Our investment philosophy is to make long-term investments in well-managed businesses which enjoy sustainable, competitive advantages. Our core belief is that share prices ultimately follow earnings.

For this reason, we aim to select stocks that offer the prospect of sustainable above-average growth in earnings and cash flow. We believe it is easier to generate outperformance for our clients by assessing a company's prospects for sustainable growth rather than by predicting short-term

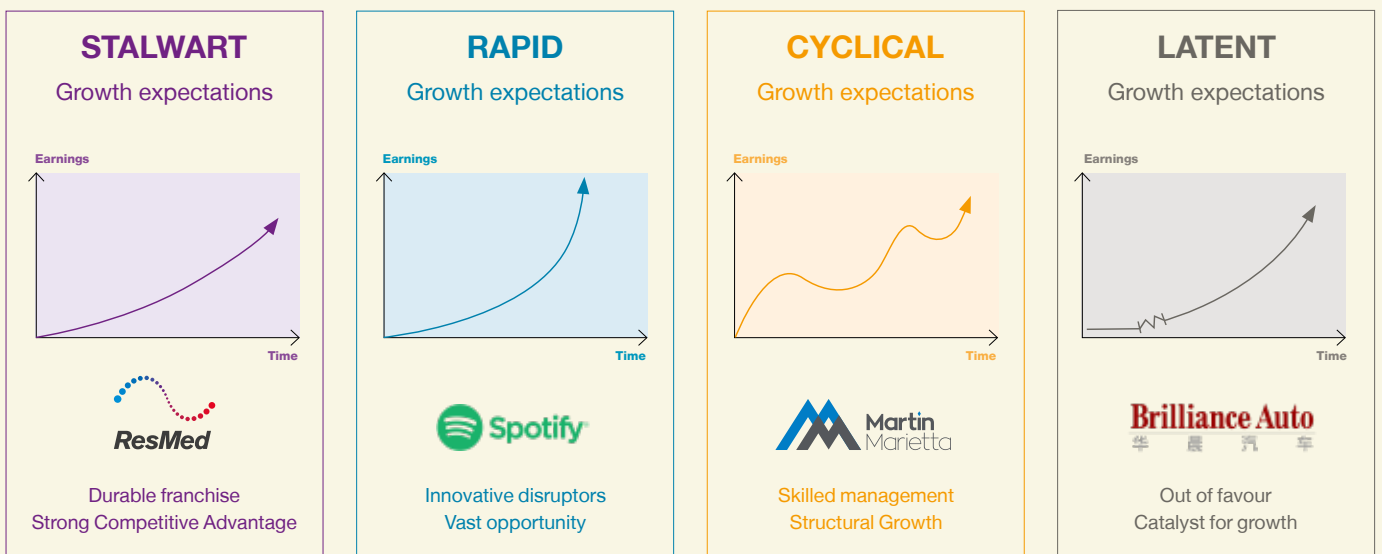
share price movements or macro economic trends.

We have an open-minded approach to growth: we recognise that companies grow at different rates, some more cyclically than others, and we are also prepared to invest in companies with 'latent' growth opportunities. We think our long-term investment perspective allows us to capture the more volatile growth from companies in a range of industries that other growth investors may overlook. We place all the stocks in the

portfolio in one of four 'growth profiles': stalwart growth, rapid growth, cyclical growth and latent growth.

We gain an in-depth knowledge of individual companies in order to develop a view about their prospects; we think information derived from companies is usually more timely and reliable than economic statistics. We compare our view to that of the consensus, and view discrepancies as a potential opportunity to add value.

GLOBAL ALPHA STOCK GROWTH PROFILES





RESEARCH AND INVESTMENT PROCESS

The Global Alpha investment managers and analysts spend the majority of their time researching stock ideas. The team also draws on the experience of the wider Baillie Gifford research teams, drawing on the stock ideas generated by these teams. Further research is then conducted on stocks which the Global Alpha team believe may merit inclusion in the portfolio.

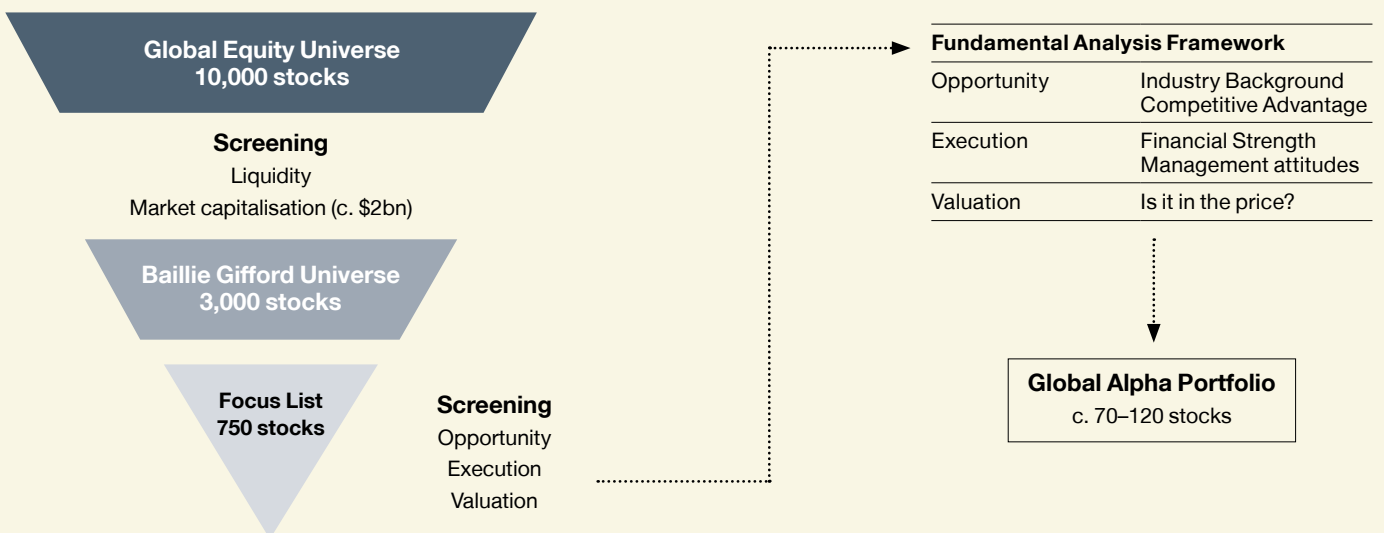
Once our regional teams have identified ideas, these are promoted to the three Global Alpha investment managers at the six-weekly Portfolio Review Group (PRG) meeting.

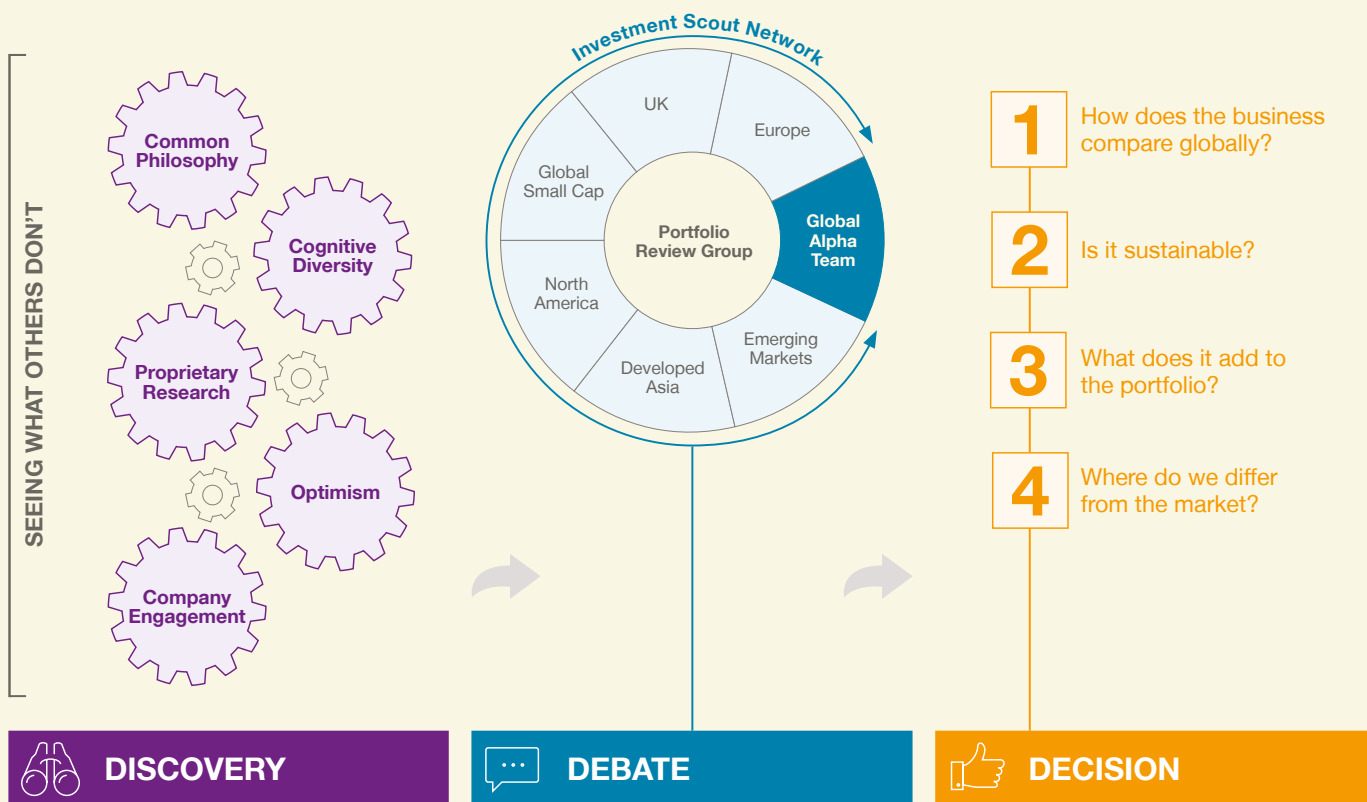
The PRG consists of the three managers, and dedicated analysts together with representatives from other equity teams. From time to time a topical guest may also attend to address specific areas of interest.

At the PRG meeting, the regional representatives show their enthusiasm for stock ideas by ranking the stocks that are currently in the portfolio and those that they think warrant inclusion in the future. Ideas are debated in a global context, and where more work needs to be done the investment managers can either take this forward themselves or ask the regional representative to undertake the work.

The qualitative examination of companies is critical to the research and selection process. We have an extensive program of company meetings and we aim to meet with all our major holdings at least once a year. All the research undertaken at Baillie Gifford is generated internally, using a wide range of sources including the companies themselves. For every investment under consideration we analyse three aspects – the opportunity available to the company, its ability to execute on that opportunity and the valuation of the business.

RESEARCH





PORTFOLIO CONSTRUCTION

The three investment managers, Charles Plowden, Malcolm MacColl and Spencer Adair, have ultimate responsibility for portfolio construction and performance.

Following debate within the PRG, the investment managers consider four questions of each potential holding when constructing the portfolio:

How does the stock compare globally?
 — designed to assess how the business stacks up against its global peers. It may be the best investment in its home region, but could we do better by broadening our horizons?

Is it sustainable?
 — this question is deliberately broad, designed to identify any aspect of the investment case which may impact on a company’s ability to compound growth many years into the future.

Where do we differ from the market?
 — designed to establish whether the growth potential of the stock is already reflected in the share price.

What does it add to the portfolio?
 — designed to seek out whether the stock is bringing a new theme to the portfolio (we are particularly keen to look for attractive diversifiers) or whether it is replicating an investment already held.

All three investment managers have an equal say in investment decisions, thereby ensuring that a majority decision is always reached. However, where one investment manager strongly disagrees with the other two, this will result in further work being undertaken in order to achieve broader agreement before any final decision is taken.

Careful consideration is given to the holding size of individual investments. We have three broad groups of holding size: c. 0.5% holdings, c. 1% holdings and c. 2%+ holdings. This is explained in more detail in the risk section of this document.

Our sell decisions are generated by frequent re-examination of our holdings. We particularly look for an adverse change in the fundamentals of the business, a loss of

confidence in management or valuations where we think the market fully reflects our long-term view. Our ‘growth profile’ analysis also enables us to question whether a company is performing in line with our expectations and, if not, whether a sale is appropriate.

The structure of the PRG, which is strengthened by the knowledge of our regional equity and research teams, ensures that we conduct timely reviews of stocks and that decisions can be implemented quickly and on an informed basis.

Asset allocation is stock driven on a bottom-up basis. As a result, asset allocation across the world’s industries and regions is a function of where we identify the most attractive investment ideas. We have deliberately selected wide ranges for the portfolio relative to index weights at a regional level – the managers can hold up to 20% more than the index weight in a region. There is no minimum – we do not wish to be forced to invest in a region if we cannot find any attractive stocks in it.

RISK

FUNDAMENTAL AND PORTFOLIO RISK

AN UNDERSTANDING OF COMPANY FUNDAMENTALS

We recognise that one of the most significant risks within the portfolio is the permanent loss of our clients' capital and we therefore place significant emphasis in our investment management process on understanding the fundamentals of the companies in which we invest, and of the industries in which they operate.

DIVERSIFICATION

We ensure that we have a prudent level of diversification across stocks, industries and regions. Our investment guidelines, featured on page 5, are deliberately broad. This affords our investors the freedom to only invest where they see the very best opportunities for long-term value creation. Global Alpha is also diversified by growth type due to its four 'growth profiles'.

HOLDING SIZE

Careful consideration is given to the holding size of individual investments. We have three broad groups of holding size: c. 0.5% holdings, c. 1% holdings and c. 2% holdings. Only the highest conviction stocks are normally holdings above c. 2% of the portfolio. Companies in which there is a greater degree of risk or uncertainty are typically c. 1% or less. The c. 0.5% holding size, our 'incubator' holdings, enable us to bring a wide range of stocks into the portfolio where we believe there to be a higher risk/reward profile.

RISK CATEGORIES

We consider exposures to different risk categories such as commodity prices or inflation – these risk concentrations are not directly captured by reference to an index or benchmark but are important influences on return in the portfolio.

TRADING RISK

Our proprietary Restrictions System is designed to prevent inappropriate transactions before dealing takes place. Systems also help to avoid excessive concentration of risk by identifying any stock, sector or country exposures that are outside internal guidelines. Segregated clients are sent an annual confirmation report to ensure the ongoing accuracy of their restrictions.

RISK TEAM MONITORING

Our dedicated Investment Risk team is entirely independent of the Global Alpha investment managers. The team uses a range of tools and measures to analyse the risk within portfolios including 'active share', delivered tracking error and the spread of stock specific risk. Importantly, our Investment Risk team is also experienced in assessing the methodology and limitations of the different tools, and how to interpret their output in different market conditions. Overall, we believe that these tools can add value to the investment monitoring process if used intelligently and pragmatically. The Investment Risk team reports formally every quarter to the investment managers, Client Service team and our Investment Risk Committee (chaired by an Investment Partner).

SUITABILITY

Global Alpha should appeal to any organisation that is prepared to tolerate short-term volatility in order to gain longer-term rewards from global equities.

It may not be an appropriate choice for those with low risk appetites, short-term performance time horizons (i.e. less than 5 years), or a desire for smoothed returns.



TEAM BIOGRAPHIES



[Spencer Adair](#)

Investment Manager

Spencer joined Baillie Gifford in 2000 and is an Investment Manager in the Global Alpha Team. He became a Partner in 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 has been involved in the Global Alpha portfolio since inception in 2005 and has focused exclusively on this portfolio management responsibility since early 2007. He graduated BSc in Medicine from the University of St Andrews in 1997, followed by two years of clinical training in Edinburgh.



[Malcolm MacColl](#)

Investment Manager

Malcolm is a Investment Manager in the Global Alpha Team. He has been involved in Global Alpha since the product's inception in 2005 and this is his sole portfolio responsibility. He joined Baillie Gifford in 1999 and spent his graduate rotation in the UK Small Cap Team before joining the North American Team. Malcolm managed the North American portion of wider Global portfolios whilst in the North American Team. He is a member of the CFA Society of the UK and became a Partner of the firm in 2011. Malcolm graduated MA in Economics and History in 1998 and MLitt in Economics, Politics and Management in 1999 both from the University of St Andrews.



[Charles Plowden](#)

Investment Manager

Since the inception of Global Alpha in 2005, Charles has been one of the three Investment Managers for the strategy. After becoming a Partner in 1988, he became Joint Senior Partner with overall responsibility for the investment departments in 2006. Charles joined Baillie Gifford in 1983 and was an Investment Manager in the UK Equity Team for over 20 years notably developing Baillie Gifford's specialist UK capabilities, and was latterly head of the team. Charles graduated BA in Modern History from The University of Oxford in 1983.

