

# Value Assessment

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As at 31 March 2023



*Actual Investors*



# Introduction from the Chairman of Baillie Gifford Investment Management (Europe) Limited



## Dear Shareholders,

Welcome to Baillie Gifford Investment Management (Europe) Limited's (BGE) first assessment of the value that the Baillie Gifford Worldwide Funds plc (BGWF) deliver to investors, which in the context of this report will be referred to as the Value Assessment.

As Chairman of the Board of BGE it is my responsibility to ensure the board of directors performs a detailed assessment as to whether the funds are providing value to its investors. This will be done to 30th September each year, the year end of the funds, and published on Baillie Gifford's website.

On 1 April 2022, BGWF appointed BGE as the management company to carry out the investment management, distribution and administration services in respect of the Company in accordance with the terms and conditions set out in the Management Agreement. BGE has delegated responsibility for the investment management of the Company to the Investment Manager Baillie Gifford Overseas Limited (BGO). Prior to this appointment the annual value assessment was completed by the board of BGWF. BGO is a wholly owned subsidiary of Baillie Gifford & Co (Baillie Gifford, or the firm), and BGE is a wholly owned subsidiary of BGO. Both entities share the same beliefs, values and strategies as the ultimate parent. Baillie Gifford offers a range of equity, multi asset and income strategies.

The board of BGE acts in the best interests of its investors and monitors the funds to ensure they are being managed in line with their investment objectives. The Board comprises appropriately qualified and experienced directors, including non-executive directors, and provides independent scrutiny of the performance of the funds and of the investment manager. The Board has been fully involved in the value assessment process, providing input and challenge.

To assist with the process, third parties were engaged to provide impartial reporting and feedback. Fitz Partners, a fund data specialist, has helped with the analysis of performance and the costs incurred by the funds. Survey details from independent researchers also formed part of the Value Assessment.

The Board believe that overall, value has been delivered to investors for all 27 of our funds although recognise that recent market volatility fuelled by significant macroeconomic and geopolitical pressures has seen the value of growth stocks, which are core to our investment teams' ethos, fall significantly during the 12 months which has impacted performance. However, Baillie Gifford are long term investors and as such consider this period too short to measure against the investment objectives of the funds which are set at 3 or 5 years. Costs continue to remain low in line with the policy of maintaining fees at fair and reasonable levels.

I hope you find this value assessment interesting, informative and constructive.

*Seamus Creedon*

*Chairman, Baillie Gifford Investment Management (Europe) Limited, March 2023*

# Contents

What is a Value Assessment?	Executive Summary	Value Assessment and Conclusion
03	04	07





# What is a Value Assessment?

*Before starting to prepare the value assessment, we defined how we add value for investors.*

**Baillie Gifford Worldwide Funds has appointed Baillie Gifford Investment Management (Europe) Ltd as manager and distributor with Baillie Gifford Overseas Limited (BGO) as sole investment manager.**

BGO is an active investment manager aiming to deliver overall value for investors in Baillie Gifford Worldwide Funds (BGWF) over the long term, keeping costs fair and reasonable and providing excellent levels of client service to investors. Overall value is delivered and measured having regard to the particular fund's investment objective and policy.

The Central Bank of Ireland (CBI) requires the board to carry out a regular assessment of fund performance and value delivered to investors which for the purposes of this report will be called the Value Assessment.

Although the CBI requirements do not specifically cover the components that should be considered when assessing value, the board are comfortable that the metrics chosen enable this assessment, whilst also recognising that they cover important aspects of what we do for our clients.

The four assessment criteria are:

## 1. Performance

The performance of the fund, after the deduction of all payments, over an appropriate timescale and in relation to the investment objective and policy of the fund.

## 2. Costs

Whether charges to the fund are reasonable, and services are provided on a competitive basis.

## 3. Classes of shares

Whether it is appropriate for investors to hold shares in classes with higher charges than other classes of the same fund.

## 4. Quality of service

The range and quality of service provided to investors relating to the fund, or any additional services carried out on behalf of investors.

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# Executive Summary

*The conclusion is that value has been delivered for all 27 of the funds of Baillie Gifford Worldwide Funds.*

This report covers our range of Irish domiciled UCITS funds. Our conclusion is that value has been delivered for all funds. Performance is being closely monitored for funds where performance has been behind the benchmark over the longer term.

Despite the volatility in financial markets, a number of the funds measure well over the longer term (three or five years, depending on the fund's investment objective), with returns ahead of their benchmark. During the pandemic, the majority of the portfolios delivered strong performance with exceptional returns generated over the 12 months to 30 September 2021, as several invested in companies which benefited from prevailing behavioural changes such as a move to higher levels of online activity. In last year's report it was acknowledged that these exceptional returns were unlikely to be repeated.

Between 1 October 2021 and 30 September 2022, many of the funds underperformed significantly. We understand that the underperformance has adversely impacted investors' savings so investment teams must continually challenge themselves to ensure their portfolios are well placed for the next five years and beyond. During this time, it is important that the investment teams and their decision making is supported, as we are clear that changing the investment approach would be detrimental to long-term outcomes for investors in these funds.

Our income and multi-asset funds remain focused on the long-term robustness of income streams and capital growth. For equities, it's about identifying and holding for the long term only the most compelling growth opportunities. The investment managers are thinking carefully about what growth looks like in a sustained period of higher inflation. They are looking for evidence that companies can sustainably grow their business, demonstrate pricing power

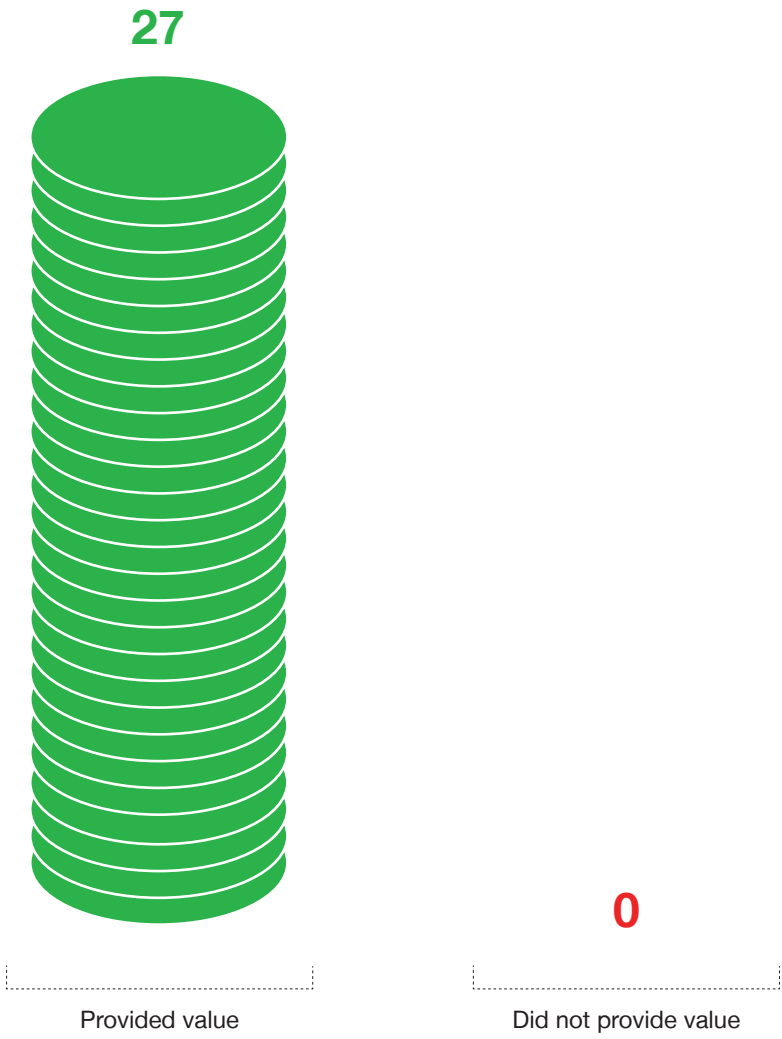
and resilience and ultimately significantly increase earnings. That matters because when you look at what drives companies to be among the top equity performers globally over the long term, it is the ability to grow earnings. The investment managers believe this approach is the best way to maximise the probability of delivering tangible value for investors over the next five years and beyond.

As overall costs are important to our funds' returns and the value provided for investors, we aim to keep them competitive and transparent. They remain at low levels relative to our peers and are in line with charges applied to other funds managed by Baillie Gifford offering comparable services, including those for entry-level institutional clients in similar strategies. The investment management fee for the Baillie Gifford Worldwide UK Equity Alpha Fund was reduced during the year.

Surveys covering a broad range of clients confirm that Baillie Gifford's quality of service is of a high standard, in line with the firm's policy of putting clients' interests ahead of its own. Environmental, Social and Governance (ESG) issues are increasingly important determinants of long-term success for companies so they are often considered in our investment process, even in cases where a strategy does not have a specific ESG objective. Dedicated ESG analysts are integrated into most investment teams to enhance our understanding of relevant ESG factors, such as company treatment of stakeholders and adoption of suitable business practices.

Although performance has not been as strong over the short-term, when considered with the combination of low costs and a high quality of service to clients, all funds were considered to have delivered value. More detail on the approach and findings can be found later in this report.

Of our 27 Funds



## Results of the value assessment at a glance

The results of the assessment are noted in the table below, with further detail provided later in the report.

### All 27 funds provided value

#### Funds

Baillie Gifford Worldwide Asia Ex Japan Fund

Baillie Gifford Worldwide China A Shares Growth Fund

Baillie Gifford Worldwide China Fund

Baillie Gifford Worldwide Discovery Fund

Baillie Gifford Worldwide Diversified Return Euro Fund

Baillie Gifford Worldwide Diversified Return US Dollar Fund

Baillie Gifford Worldwide Diversified Return Yen Fund

Baillie Gifford Worldwide Emerging Markets All Cap Fund

Baillie Gifford Worldwide Emerging Markets Leading Companies Fund

Baillie Gifford Worldwide European Growth Fund

Baillie Gifford Worldwide European High Yield Bond Fund

Baillie Gifford Worldwide Global Alpha Choice Fund

Baillie Gifford Worldwide Global Alpha Fund

Baillie Gifford Worldwide Global Income Growth Fund

Baillie Gifford Worldwide Global Stewardship Fund

Baillie Gifford Worldwide Global Strategic Bond Fund

Baillie Gifford Worldwide Health Innovation Fund

Baillie Gifford Worldwide Islamic Global Equities Fund

Baillie Gifford Worldwide Japanese Fund

Baillie Gifford Worldwide Long Term Global Growth Fund

Baillie Gifford Worldwide Pan-European Fund

Baillie Gifford Worldwide Positive Change Fund

Baillie Gifford Worldwide Responsible Global Equity Income Fund

Baillie Gifford Worldwide Systematic Long Term Growth Fund

Baillie Gifford Worldwide UK Equity Alpha Fund

Baillie Gifford Worldwide US Equity Alpha Fund

Baillie Gifford Worldwide US Equity Growth Fund

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# Value Assessment and Conclusion

## Value assessment process

When assessing whether the funds provide value, the Board of BGE considered how best to evaluate the key areas – performance against objective, costs and quality of service. No single measure provides a conclusive picture but, when combined, they give a good indication of whether value has been delivered. As such, it was decided not to weight individual criteria but instead consider them collectively. As part of the review process, information already used by Baillie Gifford and the Board for management information and governance of the funds is analysed. However, engagement with external parties is also undertaken to provide independent, supplementary data on performance, fund fees and expenses.

A RAG rating (red, amber, green) was used to evaluate each of the four criteria and then the Board concluded overall whether value had been delivered to investors in a fund: green (fund provides value), amber (fund provides value, with action required and/or monitoring required) and red (fund does not provide value and requires action taken).

## 1. Performance

### Assessment process

The Board considered whether the funds met their investment objectives. The majority of funds have a benchmark against which performance is measured. The Board have looked at the performance of the funds (after all the fees have been deducted) relative to the applicable benchmark.

The Board evaluated performance over the time period (three or five years) specified in the investment objective of the fund. The Prospectus recommends that investors view this as the minimum holding period. For new funds which have been in existence for a shorter time, the Board looked at the performance since the launch of the fund, although are mindful that the intention is to invest for the longer term and returns over a very short period are of limited value in assessing how well the fund has performed.

As BGO is an active fund manager it is recognised that the portfolio of an actively managed fund will differ from the benchmark, and there will be periods when funds produce better or worse relative returns. This has been taken into account and the Board have also looked at how the funds performed in relation to a peer group that was selected by Fitz Partners, a fund data specialist which helped with the analysis of performance and the costs incurred by the funds.

Where funds have additional or alternative investment objectives, such as the delivery of income or reduced volatility, the Board considered whether these objectives had been met.

### How did we do?

First, the Board reflected on how funds rated amber for this criterion in last year's report have performed. There were five funds rated 'amber' for performance last year as performance was behind target. Three of these funds continue to be rated amber as although performance remains behind the benchmark they have still not been in existence long enough to be measured against their investment objective. Two of these funds, the Baillie Gifford Worldwide UK Equity Alpha Fund and the Baillie Gifford Worldwide Systematic Long Term Growth Fund, were rated red as performance had fallen significantly behind benchmark. One of these red rated funds, the Baillie Gifford Worldwide UK Equity Fund, was terminated after the year end following a large redemption in the Fund.

In terms of this year's assessment, the period under review has seen much volatility in markets. This has given rise to an environment where share prices of many of the funds' equity holdings have been hit indiscriminately, whether or not underlying companies are performing well operationally. Similarly, many of the income and multi asset funds have been impacted by the challenging market environment. While the significant volatility in financial markets has resulted in poor absolute and relative performance in the shorter term for many funds, returns over their longer-term recommended holding periods remain ahead of the index. Performance was also assessed against the peer group selected by Fitz Partners.

Twelve funds were rated 'amber' although two of these, as noted above, are still relatively new and it is therefore acknowledged that it is hard to conclude given the short performance periods available.

The three funds rated 'red' have all been in existence for less than 2 years, so the since inception period is shorter than the timeframe applied to the performance objective, therefore again it is too early to meaningfully conclude. Further, the Board believe that shorter-term performance measurements are of limited relevance in assessing investment ability.

### Conclusion

The Board recognise that it has been a challenging period with only 12 funds rated 'green'. The Board will continue to monitor the performance of the 12 funds rated 'amber' and the 3 funds rated 'red' whilst remaining mindful of the duration of the funds existence in relation to their investment objective.



## 2. Costs

### Assessment process

The Board reviewed every cost component of the ongoing charges figures (OCF) of the funds. The largest is the management fee, covering the services provided by BGE and BGO. The OCF includes not only the cost of investment management but also the costs of administration and transfer agency services which are provided by BBH. In addition, there are other costs, such as custodian, depositary, legal and audit fees. BGE do not charge performance fees or exit charges. The Board looked at all of them to determine whether they are reasonable for the services provided.

The Board looked at the cost of the funds compared to others offering a 'comparable service' using data provided by Fitz Partners, who calculated OCFs from the latest available audited accounts for the same peer groups used in the assessment of performance.

### How did we do?

The Board believe that the fees paid for investment management services are reasonable and provide good value. The Board consider the fees paid to other service providers to the funds were appropriate in relation to the level of service provided.

The costs of the funds are low. All 27 of the funds were ranked in the lowest 25 per cent when compared to the peer group in the analysis carried out by Fitz Partners.

Baillie Gifford does not seek to maximise revenue or profits on a per fund basis through its fee arrangement, nor does it calculate the margin on individual strategies, funds or geographies. Baillie Gifford believes that building long-lasting relationships at fair prices is ultimately much more valuable than seeking to maximise the profitability of a given strategy.

During the year the management fee for the Baillie Gifford Worldwide UK Equity Alpha Fund was reduced by 0.04% with effect from 1 October 2021 (B class fee rate reduced from 0.275% to 0.235%). This fund has since terminated, on 25 November 2022, following a large redemption in the Fund.

Other charges and the service provided are regularly reviewed and, where appropriate, fee rates are renegotiated with providers. The Board considered the fees paid to other service providers to the funds were appropriate for the level of service provided.

### Conclusion

The Board have rated this 'green' for all funds as fee levels overall are fair and competitive. They remain low for the funds and appropriate for the level of service provided.

### 3. Classes of shares

#### Assessment process

The value assessment is based on B class shares, which are best suited to individual investors, purchased directly from the transfer agent or through an independent financial advisor or platform. This is the 'clean' share class. However, the data is reviewed for other share classes that are offered which have different management fee rates, different minimum levels of investment and are designed primarily for distributors of the funds or institutional investors. The different share classes and the management fees are noted in the prospectus for the funds. The Board considered whether the differences in fee rates are justified.

#### How did we do?

We aim to keep costs fair, reasonable and transparent for our clients. With the exception of the A share classes, the management fees for other share classes are lower than those charged for B share classes. The lower fees are a recognition of the tasks carried out by the other company, which would ordinarily be carried out by Baillie Gifford. The C share classes do not charge a management fee but are only available to institutional clients who wish to have an investment management agreement with the firm and are charged separately for investment services.

While our B share class fee rates offer access to institutional pricing to all holders of our funds, we offer a range of different share classes in our funds that are suitable for different types of investors. Different management fees are charged for these share classes.

The A share classes have a higher management fee and lower minimum investment level than the B share classes because we use other companies to help us with the distribution and marketing of the funds. We consider sharing the revenues from fees with these companies if they provide a service or benefit that we would either otherwise have to provide ourselves and charge for or pay a third party to carry out for us. A rebate is paid to intermediaries and distributors in this share class. This retrocession payment recognises that the distributor or intermediary is providing services to the end investor but the Board notes that it is only the end investor who can decide if they are receiving value for this service.

#### Conclusion

The Board have rated all the funds 'green' and are satisfied that the reasons for the differences in management fee rates between the different share classes are justifiable and appropriate. The Board believes that investors hold shares in the lowest cost share class available to them via their chosen investment route.

## 4. Quality of service

### Assessment process

With the aid of client feedback, the Board considered the quality of investment management and client servicing provided by Baillie Gifford as well as the level of service provided by others to the funds. The Board reviewed measures covering a broad range of clients, including consumer scores from a third-party researcher, Anova, which conducted client and consultant satisfaction interviews. Qualitative and quantitative fund ratings from agencies, platforms and consultant ratings were also considered. The Board also looked at internal reviews of the services delivered by other service providers.

### How did we do?

Baillie Gifford is always looking to evolve and improve its investment process and research. In the past 12 months, much of this quest for improvement has taken the form of further integrating consideration of ESG factors into investment analysis and decision-making. Consequently, Baillie Gifford has significantly expanded the level of resource dedicated to researching and understanding the implications of this changing investment environment to assist the firm's ability to deliver strong investment returns.

At Baillie Gifford, existing clients' interests are paramount. It is therefore pleasing that the data from client surveys indicate overall satisfaction levels for client service and understanding clients' unique needs remains very high during a time of challenging performance.

The Board also looked at internal reviews of the service levels of other providers used. No issues were highlighted and the fees paid were commensurate with the service levels provided.

### Conclusion

The Board concluded that a good quality of service is offered to investors and rated this 'green' for all funds.

### Overall Conclusion of Value Assessment

Baillie Gifford Worldwide Funds aims to ensure the performance of the UCITS is reflective of the expected active management that investors are paying for, and if the fees charged are commensurate with the level of actual active management and performance achieved. The conclusion of the value assessment is that all 27 funds have delivered.

Where performance has disappointed, investment teams have reappraised their portfolios, given the recent significant volatility across major stock and bond markets. We are mindful, however, that changes in investment approach would be detrimental to long-term investor outcomes. Whilst focus remains on the long term, we are cognisant too of the significant short-term underperformance during the last 12 months. Investors who have joined us in that period will have had a difficult start as growth stocks that our managers prefer have underperformed. The investment teams remain optimistic that the companies owned by the funds are the right ones to achieve outperformance in the long term. Funds will continue to be monitored where longer-term returns have disappointed.

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## **Directors of Baillie Gifford Investment Management (Europe) Limited'**

Seamus Creedon (Chairman)

Hans Benenga

Ross Carlin

Colin Dunnett

Lindsay Gold

Milena Mileva

Gavin Scott

## **Important information**

Please remember investment markets can go down as well as up and market conditions can change rapidly. The value of an investment in a fund, and any income from it, can fall as well as rise and you may not get back the amount invested. Further details of the risks associated with investing in a fund, performance history and the full investment objective and policy can be found in the Prospectus, Key Investor Information Document (KIID) and Report and Accounts which are available by contacting us below or visiting Baillie Gifford's website **[bailliegifford.com](http://bailliegifford.com)**.

To contact us please call Brown Brothers Harriman Fund Administration Services (Ireland) Limited: **00 353 1 603 6490 (fax 00 353 1 603 6310)** or visit the Baillie Gifford website at **[bailliegifford.com](http://bailliegifford.com)** for further information.

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