

**Baillie Gifford™**

# Worldwide Discovery

Philosophy and Process



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# Philosophy

**The Worldwide Discovery Strategy is an unconstrained global best ideas equity strategy that looks for early stage disruptive businesses. It employs fundamental, company-specific research to identify and invest in exceptional growth companies at an immature stage of their lifecycle. Investments are made with a five- to ten-year time horizon.**

Two founding observations were critical in forming the Worldwide Discovery investment philosophy and have held true for more than a decade. First, innovation and technological progress are the strongest compounding forces that drive society and stock markets forward. Thus, we are obsessed with the technological and scientific drivers of change. Second, we understand that even the most revolutionary changes and groundbreaking innovations often have modest and uncertain beginnings.

We seek innovative companies early in their life cycle, when they are still to go through their most exciting, rapid stages of growth, yet may be overlooked or misunderstood by the broader market. We intend to hold these exceptional businesses for the long term, ideally for periods of at least five years. Experience has taught us that such a time horizon is crucial to generate the asymmetrical outcomes which will drive overall portfolio returns.

Our conviction that this approach can regularly generate superior client outcomes is built on the following four beliefs.

## **Potential matters over size**

We are interested in smaller companies not simply because they are small, but because they are immature relative to their potential. Most small companies remain so because they lack the opportunity or ability to differentiate themselves. We look for businesses actively building for the future, those that, given the stage of their development, offer significant growth potential from a lower base. In practice, this a very small subset of the otherwise vast and unremarkable small-cap universe.

## **Immature companies will shape the future**

Experience has consistently shown us that it is less mature, more entrepreneurial companies that shape the transformation of an industry. It is striking how little innovation originates directly from large businesses, and how often bigger corporations are bad at dealing with change. Size often creates a formidable barrier to competition, but cultural inertia and entrenched processes can significantly inhibit necessary evolution and adaptation to change.

## **Small companies need deep analysis**

Our intensive fundamental research is most valuable when assessing immature businesses. It is typically during this stage that the market's understanding of a company's growth potential is at its least developed. Furthermore, inefficiencies and valuation anomalies are more prevalent among smaller companies, as they typically receive less attention from market analysts. This creates opportunities for investors willing to conduct deep, fundamental research.

## **Find tomorrow's winners early**

Our bottom up, active investment style is proven to identify exciting businesses early in their development. By investing early, we are able to fully capitalize on the asymmetry inherent in equity investment returns and to harness the power of compounding over long time horizons.

# Process

## Idea generation

We estimate there to be tens of thousand of companies that are of sufficient size and liquidity for us to invest in. Rather than attempting to cover all these stocks, we employ focused qualitative screening to identify companies that align with our philosophy. This disciplined approach means we concentrate on only the most promising opportunities. We focus our efforts on businesses benefitting from two key drivers of value creation:

1. A fundamental structural change in the company's market, be it due to societal change, technological disruption, shifting demographics or environmental imperatives.
2. The company's response to such changes, through product or service innovation, deployment of disruptive technology, or a revolutionary business model.

From this smaller pool we seek to identify companies which exhibit four key characteristics. Assessment against this criteria forms the basis for all investment decisions;

- The company is actively innovating to solve significant problems and reshape its industry
- It has an emerging and sustainable competitive advantage
- Its management has a clear strategy for long term growth, as well as the requisite skills and vision to pull it off
- Its business model has the inherent capacity to scale, and to strengthen as it scales

Individual team members are given a high degree of research autonomy and are encouraged to follow their own enthusiasm to generate ideas. All are generalists and there are no geographical or sector constraints on which stocks the team can consider. This allows us to keep our horizons as broad as possible.

The team is instilled with a clear understanding of key qualities associated with immaturity, and then allowed to hunt for it based on their individual curiosity. We thoroughly examine approximately 150 stocks each year, evaluating them against existing holdings and other potential investments before deciding whether to include them in the portfolio.

## Decision making

All members of the Discovery investment team play an integral role in researching stocks, generating new ideas, and participating in comprehensive stock discussions. The whole team meet once a week to review the pipeline of ongoing research, share insights from company meetings, and discuss operational developments across the portfolio.

For each new idea, a member of the team will produce a research report focusing on the four beliefs described in the philosophy. The report is then subject to review at a formal stock discussion, which are scheduled weekly. The purpose of this discussion is for the researcher to present the investment idea to the team, who rigorously debate its suitability for inclusion to the portfolio, and propose further research avenues if necessary. It is not unusual for an idea to be discussed two or even three times at stock discussions. Once an idea has undergone this process of thorough research and debate, the Portfolio Construction Group\* (PCG) assumes responsibility for the final decision regarding its inclusion (or otherwise) in the portfolio.

\*Described on page eight.

The PCG’s decision-making philosophy places emphasis on backing enthusiasm rather than achieving a full consensus. This is in acknowledgement that some of the best ideas are the most contentious. For a company to earn a place in the portfolio, it will require the sponsorship of at least two PCG members, one of whom must be Douglas or Svetlana. These sponsors then share the primary responsibility for monitoring the holding. The PCG meets every six weeks to formally review portfolio composition and make trading decisions.

Sell decisions are based on irrevocable change in the investment case, a loss of confidence in management, or where we believe valuations fully reflect our long-term view. Since we believe that size poorly indicates maturity, we don’t sell successful companies solely because they’ve grown large. Instead, sell decisions are based on fundamental analysis.

**Portfolio construction**

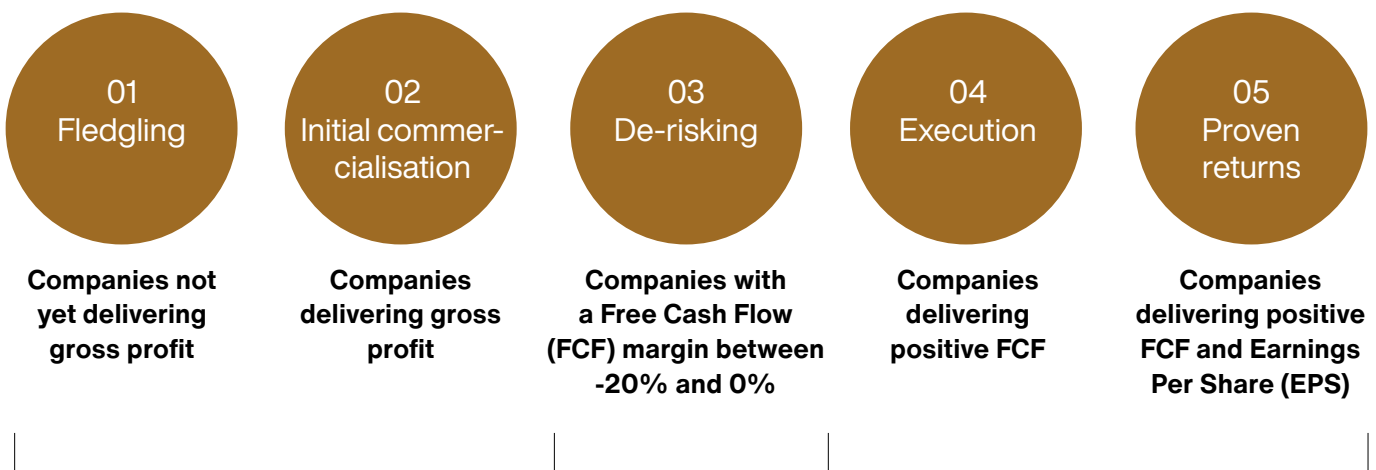
The culmination of this process is a high conviction global portfolio of 50-75 exceptional growth companies. Initial positions range from 0.75% to 3.0%, based solely on investment conviction. Early-stage, more binary investment ideas start at around 0.75% – enough to meaningfully impact returns if successful, while limiting downside risk. More established, high-conviction positions enter towards the higher weighting.

We minimize trading around position sizes, preferring to let winners run naturally. While we may adjust positions as our conviction changes or clear pricing opportunities arise, we focus on long-term holding rather than active trading. This approach reflects our belief that we have very little edge in timing trading activity, with the only guarantee being transaction costs for our clients.

All overweight or underweight positions relative to the index are best viewed as outputs – all portfolio positions reflect our bottom-up assessment of each company’s potential.

Through extensive analysis, we have identified financial maturity as the primary long-term risk factor for our strategy. Our research demonstrates that actively managing this risk factor can enhance strategy returns. To implement this insight, we have developed a portfolio construction framework that categorises investments based on their financial maturity. This framework segments portfolio holdings into the cohorts below based on delivered financial returns.

We believe these groupings represent the critical waypoints in a company’s financial maturation. We anticipate holdings will progress through these categories as their business grows and profitability increases with scale.



**Portfolio construction guardrail**

15% target across categories 1 and 2  
1.5% limit on deployed capital per position

**Portfolio construction guardrail**

At least 50% of assets across categories 4 and 5

# Risk management

Our chosen path is not easy. The nature of our strategy inherently involves risk. In assessing immature companies, we must strike the difficult balance between long-term potential and practical concerns: commercial execution, long-term scalability, and, most importantly, the prospect for attractive returns. We will not make the right judgement call for every position. However, when our thesis is proven to be correct, when technological progress, commercial execution, and profound scalable opportunities combine, the outcomes can be spectacular and the rewards enormous.

Worldwide Discovery will likely exhibit greater shorter-term volatility than a typical equity portfolio (i.e. the annual standard deviation of returns will likely be higher than that of an 'all cap' global equity index).

The greatest risk mitigation comes from our own fundamental research process at the stock level – every stock in the portfolio deserves its place on its own merits, rather than owing to its corresponding index position. The strategy's success, will be driven by the success (or failure) of the collection of idiosyncratic companies held within it.

In addition to the financial maturity portfolio construction framework, we manage the overall portfolio within a series of diversification guidelines. These are intended to ensure a sufficient level of diversification that enables us to accept volatility in single stocks while attempting to limit it at the total portfolio level. However, our benchmark-agnostic approach to portfolio construction means the resulting portfolio will always display substantial concentration relative to the benchmark.

This structured approach enables us to pursue high-potential opportunities while acknowledging the unique risks inherent in early-stage growth investing.

Worldwide Discovery diversification guidelines	
<b>Holdings</b>	50–75
<b>Minimum effective number of stocks*</b>	25
<b>Maximum market cap for new purchases</b>	Largest index constituent by market cap
<b>Minimum number of industries</b>	10
<b>Concentration of top three industries</b>	45%
<b>Minimum number of countries</b>	6
<b>Maximum allocation to the US</b>	75%

\*The effective number of holdings is a measure of diversification based on the number of holdings in an equally weighted portfolio that would have the same level of diversification. The effective number of assets in a portfolio is arrived at by squaring the weighting of each holding, adding them up and calculating the reciprocal number. For example, if we have a 100 stock equally weighted portfolio then the effective number of stocks is also 100. However, using the rules outlined above we can see that if one holding was 10% of the portfolio and the other 99 holdings were equally weighted, then the effective number of stocks would be 55. The effective number of industries represented is calculated using a similar methodology.

# Competitive advantages

There are several notable aspects of our approach which mark our strategy out from other managers:

## **Beyond ‘small cap’: immaturity is a defining feature**

We believe that immaturity, coupled with strong growth potential, is a more important attribute than simply a company’s smallness. Most small companies will not be able to make the transition to become the large winners of tomorrow. A very small sub-set will make that transition and it is those companies that we are trying to capture in this strategy. The types of businesses we own are immature relative to their potential and also immature relative to the opportunity they seek to address. We view ourselves as growth investors with the luxury of early exposure to these exciting businesses.

## **Truly active**

Our portfolio bears little resemblance to any benchmark, reflecting our conviction that exceptional returns come from exceptional thinking. We construct our portfolio around a select group of companies that we believe have the potential to fundamentally reshape their industries or create entirely new ones. Our ambition extends far beyond the conventional wisdom of seeking modest upside. Instead, we look for companies capable of delivering transformational returns that can compound over many years.

## **We retain exposure to exceptional companies**

Our investment philosophy centers on the asymmetric nature of stock returns, where a small number of exceptional businesses drive a disproportionate share of market returns. This insight shapes our entire approach: we seek to identify these exceptional companies early, but crucially, we also commit to remaining invested as they scale and grow. Unlike conventional strategies that might sell a successful investment once it exceeds a certain market capitalization, we maintain our positions in truly exceptional companies as long as they continue to demonstrate the fundamental qualities that first attracted us.

## **Genuinely long term**

Many managers claim this; however, few actually remunerate their investors based on five-year rolling relative performance or exhibit portfolio turnover consistent with a truly long-term approach. The type of transformational growth we target does not happen quickly and we need to be patient enough to see it come to fruition, whether that takes five years, a decade, or more. Our private partnership structure makes this possible and is critical to our success.



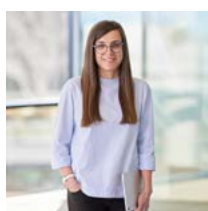
# People

## Portfolio Construction Group



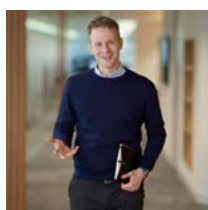
**Douglas Brodie**  
Investment Manager\*

Douglas is head of the Discovery Team and has led the strategy since its inception in 2003. He is a member of the Discovery Portfolio Construction Group and also a co-manager of the Edinburgh Worldwide Investment Trust. He joined Baillie Gifford in 2001 and became a partner in 2015. He graduated with a BSc in Molecular Biology and Biochemistry from the University of Durham in 1997 and attained a DPhil in Molecular Immunology from the University of Oxford in 2001.



**Svetlana Viteva**  
Investment Manager

Svetlana is an investment manager in the Discovery Team. She is a member of the Discovery Portfolio Construction Group and a comanager of the Edinburgh Worldwide Investment Trust. She joined Baillie Gifford in 2012. She graduated with a BA in Economics and Business Administration from the American University in Bulgaria in 2008, an MSc in Investment Analysis in 2009 and a PhD in Accounting and Finance in 2012, both from the University of Stirling. She is a CFA Charterholder.



**Bill Chater**  
Investment Specialist

Bill is an investment specialist who is dedicated to the Discovery Strategy. He is a member of the Discovery Portfolio Construction Group and chairs the Discovery Product Group. Before joining Baillie Gifford in 2018, Bill studied for a full-time MBA, specialising in Finance, at the University of Edinburgh Business School. Previously, he spent five years at MasterCard as a corporate account manager for financial institutions. Bill graduated with an MA in History from the University of Edinburgh in 2012.



**John MacDougall**  
Investment Manager\*

John is an investment manager and decision maker in the Long Term Global Growth Team. He is also a member of the Discovery Portfolio Construction Group. John joined Baillie Gifford in 2000 and became a partner of the firm in 2016. Prior to his current roles, he worked in the North American, Japan and Global Discovery teams. John graduated MA in Ancient & Modern History from the University of Oxford in 2000 and is a CFA Charterholder.

\*Partner.

## Investment team



**Brogan Harris**  
Investment Manager

Brogan is an investment manager in the Discovery Team. He joined Baillie Gifford in 2021 and has previously worked in the US Equity Growth, Long Term Global Growth and International Alpha teams. Brogan has a BSc (Hons) in Biology, a MSc by Research in Biology, and a PhD in Bioinformatics from the University of Bristol.



**Paulina McPadden**  
Investment Manager

Paulina is an investment manager in our Discovery Team and is a co-manager of our International Concentrated Growth Strategy. She joined Baillie Gifford in 2013. She has previously worked with regional and global equities teams. Paulina graduated with an MA (Hons) in Arabic and Politics from the University of Edinburgh in 2013.



**Jack Torrance**  
Investment Analyst

Jack is an investment analyst in the Discovery Team. He joined Baillie Gifford in 2019, initially in the Clients' Department as an investment specialist, before moving roles and becoming an analyst in our Japanese Equities Team. Prior to this, he worked for an NGO in the Middle East, following a career as an Infantry Officer in the British Army for eight years, completing two combat tours in Afghanistan and Iraq, and other deployments in the Levant and Central Asia. Jack graduated BA in Middle Eastern Studies from the University of Exeter in 2011 and speaks fluent Arabic.



**Ashley Lewis**  
Investment Manager

Ashley is an investment manager in the Discovery Team. She joined Baillie Gifford in 2021, and prior to joining the Discovery Team, she was an analyst in the International Alpha Team. Prior to joining Baillie Gifford, she completed a PhD in Sociology from the University of Nottingham, with a focus on cooperative solutions in urban sustainability.

# Baillie Gifford

## Clients

We are immensely proud of our supportive client base. Without them, our business could not exist.

Our primary goal is to build long-term relationships with aligned, like minded, clients. Our longest client relationship dates back to the early 1900s.

A core principle we have always upheld is prioritising our clients' interests above the firm's. In an industry that often puts financial gain over client outcomes, this focus is crucial. We aspire to be seen as more than merely the 'hired help', and aim to be recognised as a trusted, long-term partner, who can be relied on to give honest and objective advice at all times.

We are research-driven, patient and prepared to stand apart from the crowd. And because we're an independent partnership without outside shareholders, the long-term goals of our clients are genuinely our priority.

## Partnership

Stability matters.

Since its inception in 1908, Baillie Gifford has proudly remained a private partnership. We have no intention of changing this. We have never had a merger or made an acquisition, nor do we seek to in the future. This is a rare level of stability in financial services.

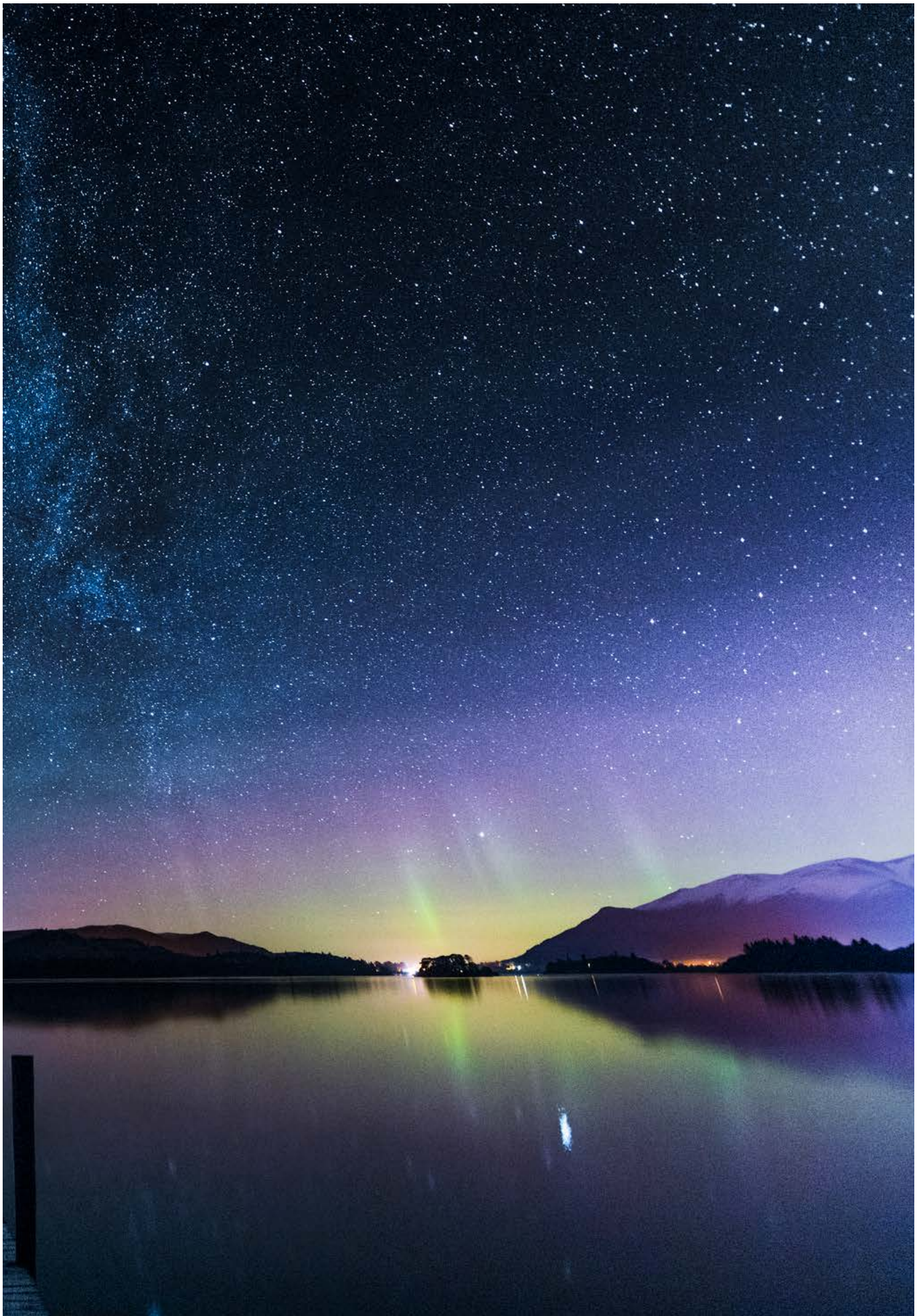
All of our partners work within the firm which provides a unique level of alignment between them as owners, and our clients. This is a key differentiator in comparison to a lot of our peers.

## Focus

We have a clear unity of purpose – excellent long-term investment returns and unparalleled client service. Our interests and long-term objectives are completely aligned with those of our clients.

We are not short-term speculators, rather we deploy client's capital to run truly active portfolios that give exposure to exciting and lasting growth companies. We would argue that it is visionary entrepreneurs and company leaders that generate long-term profits and share price increases, not stock markets or indices.

When active management is done well it can add material value over the long term. We need to be willing to take a differentiated view. This is not easy. It requires dedication, independent thought and a long-term perspective. Our whole firm is built around this, and we will always remain resolutely investment and client outcome driven in our outlook.



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