ARCHIVED

PRIVATE COMPANIES OVERVIEW

DECEMBER 2020

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

The artificial barriers between private and public companies are disappearing, but the investment world has not kept up. Investment managers Tom Slater, Chris Evdaimon, Peter Singlehurst and Rob Natzler discuss Baillie Gifford's refreshing approach to investing in late-stage private companies in the Private Companies Overview film.

Before, staying private wasn't an option. The need for capital drove companies to go public at a certain stage in their development in order to grow their businesses. But over the past decade there has been a profound change in how, where and when companies capitalise. Technology has made it easier for companies to grow rapidly, with very limited requirements for capital, making it possible for them to stay private for longer.

Tom Slater has watched this shift unfold, "Back in 2012, it was clear that if we were going to retain access to the most exciting growth opportunities in the world, we must invest in private companies. Today, Baillie Gifford has about $5bn of assets invested in private companies, and around $40bn of assets invested in companies that we first invested in when they were private."

Businesses are delaying going public partly as a result of regulatory changes, but there are other softer cultural factors pushing companies to remain private. Peter Singlehurst highlights "a real cultural shift among founders in the perceptions of staying private versus being public." It goes beyond distancing themselves from the short-term pressures of the public markets, to recognising that "they derive competitive advantage from remaining private, by being able to focus on the core mission of their business."

Singlehurst is aware of the implications for clients wanting to stay on the right side of the change. "As these companies stay private longer, it means that there is a change in where value accrues. More value is accruing while companies are private, and less value is accruing while they're public."

The traditional model of investing in private companies is increasingly misaligned. Baillie Gifford seeks to correct this by using fund structures that permit longer holding periods. "We aim to provide that continuity of ownership by investing in them privately, owning them into the public markets and owning them for as long as we believe the upside remains," says Singlehurst.

And Baillie Gifford's method works, according to Chris Evdaimon, because, "We work hard to earn the trust and the respect of the entrepreneurs that we back, through demonstrating our understanding of their companies, sharing our learnings from their sector, and by helping them transition to a public company for the right reasons and at the right time. They know that Baillie Gifford is likely to be a buyer and then remain a patient shareholder for the long term."

He confirms that in the past couple of years, more than 70 per cent of the investment rounds that we closed were directly solicited by the companies, and very often through referrals from within the Baillie Gifford portfolio. On average, we receive our required allocation in more than nine out of ten investment cases.

Companies in the later stages of the private markets need long-term owners and stewards of their businesses. They want a partner that can provide both additional capital as they transition into the public markets, and that stability of ownership and guidance as they navigate what can be a tumultuous process.

Rob Natzler explains our investors add value, "in the conversations that we have, reminding them of the importance of the long-term strategic objectives, rather than obsessing unnecessarily about possible short-term tactical missteps."

Communicating that ambition and willingness to embrace uncertainty means that when these companies go public, founders often reach out for advice. Here Baillie Gifford can assist companies in their thinking about corporate governance issues, from share class structures to putting in place modern slavery policies. Andrew Cave, Head of Governance and Sustainability at Baillie Gifford, frequently runs workshops with founders and their teams, supported by a dedicated Governance and Sustainability Team.

Natzler comments, "It's very rare to find an investor who can be with a company through multiple stages in private markets, then there's that willingness to be with them for the long term in public markets. By being that investor, Baillie Gifford can reliably show that it is better aligned with the interests of the company than anyone brought in to give short-term advice around the time of an IPO."

Slater closes by assuring all that Baillie Gifford's way of investing in private companies is very similar to how we've invested in public companies for more than 100 years: focusing on long-term winners, while being loyal and supportive shareholders. He says, "What excites me most about our private company investments is the opportunity to invest in world class companies that we think can drive growth and returns over very long periods of time."

You can hear more of our investors' views on private company investing in the Baillie Gifford film *Private Companies Overview*.

IMPORTANT INFORMATION AND RISK FACTORS

The views expressed in this article are those of the authors and should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect personal opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This communication was produced and approved in December 2020 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

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

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

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.

Persons resident or domiciled outside 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.

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. 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.

Hong Kong

Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 and a 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 柏基亞洲(香港)有限公司 can be contacted at Room 3009–3010, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong. Telephone +852 3756 5700.

South Korea

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

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.

Australia

This material is provided on the basis that you are a wholesale client as defined within s761G of the Corporations Act 2001 (Cth). Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth). It is exempt from the requirement to hold an Australian Financial Services License under the Corporations Act 2001 (Cth) in respect of these financial services provided to Australian wholesale clients. Baillie Gifford Overseas Limited is authorised and regulated by the Financial Conduct Authority under UK laws which differ from those applicable in Australia.

South Africa

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

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.

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.

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.

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.

Actual Investors

CO1638289 SAP G6 – Article 2 0723_WP3.indd
PRO WE 0191 50595