

Baillie Gifford™

# Developed Asia Pacific

Philosophy and Process



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<b>Contents</b>	Philosophy	02
	Process	03
	Risk management	04
	Competitive advantages and people	05
	Baillie Gifford	07

# Philosophy

Our investment philosophy is to add value through active management, whereby we identify market inefficiencies and exploit them for the benefit of our clients.

We are fundamental stock pickers and our investment philosophy is highlighted by the following four areas:

## **Growth investors**

The power of compounding is often misunderstood. Over time we believe share prices follow fundamentals. Those companies that can sustainably grow their business, significantly increasing their earnings and cash flow, over a long-term time frame, will be the best rewarded.

## **Active approach**

In the investment industry, many firms conflate the investment risks they run for clients with their own business risk: they seek to avoid being amongst the worst performing managers, rather than daring to be amongst the best – thereby avoiding the scrutiny of their clients. At Baillie Gifford we think this is a clear misalignment of interests: such an approach also reduces the likelihood of producing outstanding investment performance and goes a long way to undermine the case for employing an active manager. We therefore encourage our investors to express conviction in portfolio holdings, often resulting in portfolios that are significantly different from the benchmark. We ask clients to accept the volatility in short-term performance in seeking significant long-term outperformance.

## **Long-term investment horizon**

We believe a genuinely long-term approach to investment is the correct one. Our stock picking focuses on a company's potential, not just currently but over a meaningful time period, typically five years and beyond. This is a very different time frame to that adopted by many in financial markets, leading to significant inefficiencies that we aim to exploit.

## **Embracing uncertainty**

Great investments are rarely obvious. We embrace uncertainty in the search for under-appreciated growth and the reward of superior returns. Acceptance of a wide range of possible outcomes is necessary in order to be able to deliver superior long-term returns for our clients.

# Process

## Fundamental analysis framework

For every investment under consideration we analyse the following three aspects.

### Opportunity

First, we assess a company's opportunity to deliver above average returns by analysing the market in which it operates and whether the company possesses any clear and sustainable competitive advantages. Considerations here include the growth rate of the industry, the structure of pricing, barriers to entry, the uniqueness or otherwise of products and any enduring cost advantages. Only if a company has a durable competitive advantage will its growth translate into value creation for external shareholders. Our considered assessment of the sustainability of the competitive case is a critical part of our process.

### Execution

Second, we consider execution – the ability of the company to capitalise on the opportunity it has. We analyse the financial structure of the company, in particular whether it can fund growth from internally generated cash flow. We also look for tangible evidence that management run the business for shareholders, which includes their attitude to incremental capital expenditure, their willingness to exit poorly performing activities, the alignment with minority shareholders and the track record of managing the company's balance sheet sensibly.

### Valuation

Third, we consider the valuation that has been placed on the company's shares to determine the extent to which the market has already appreciated these strengths. When thinking about valuation we tend to avoid agonising over small differences in near term price/earnings multiples but instead consider how earnings will develop over the long term and what this means for the future value of the business.

## Portfolio construction

Companies that we follow are subject to the following research disciplines:

- Analysis of all results announcements (full year results, plus half yearly or quarterly results as appropriate).
- Analysis of any significant company announcements.
- In-depth research reports summarising our financial analysis and our assessment of the strengths and weaknesses of a company's business model relative to its competitors.
- We believe that our programme of company meetings is a key element of our research and stock selection process. Our principal goal at such meetings is to gain an understanding of the long-term business model of a company, and the source of its competitive advantage.

# Risk management

The team considers three aspects of risk control within its investment process.

The first, and what they consider the most important, source of risk control relates to the types of businesses they invest in. The central investment philosophy is to buy shares in successful, solid, financially secure and growing businesses which enjoy sustainable competitive advantages in their markets and are managed by honest, trustworthy people.

Second, in order to allow for a sensible degree of portfolio diversification and to control volatility, they apply a range of portfolio construction guidelines to ensure there is a sufficient level of portfolio diversification.

Thirdly, the team utilise our independent Investment Risk, Analytics and Research Department to oversee and monitor levels of risk being taken within the portfolios to ensure that they are managed with a level of risk consistent with clients' performance expectations. A risk decomposition highlights the sources of risk and independent style analyses are utilised as a check on the team's stated investment philosophy. Any issues arising are discussed both with the team and, if necessary, with Baillie Gifford's partner-led Equity Investment Risk Committee (IRC), and appropriate action is taken if necessary.

## Characteristics

The strategy is a high conviction portfolio of our best ideas across the Developed Asia region.

Characteristics	
<b>Number of stocks</b>	30–50
<b>Comparative index</b>	MSCI Pacific Index
<b>Guideline max stock position*</b>	+5% relative to the MSCI Pacific Index
<b>Tracking error guidelines</b>	2–8%
<b>Minimum market cap**</b>	US\$500m
<b>Off Index positions***</b>	10%

\*At time of initial purchase.

\*\*Guideline only.

\*\*\* Off Index positions are defined as stocks which are not headquartered or listed on the exchanges of Japan, Australia, Hong Kong, Singapore and New Zealand or because of their characteristics do not qualify as Developed Market stocks.

# Competitive advantages and people

## Highly experienced team

We benefit from a highly experienced and well-resourced team. Our managers, Mirbahram Azimbayli and Iain Campbell, have a combined average of 13 years experience investing in the region. Baillie Gifford has been investing in Japan for over 40 years.

## Differentiated portfolio

We are active, growth investors. We believe that companies that provide a sustainable competitive advantage and generate sustainable long-term returns will outperform the market over the long term. Our proprietary approach to structuring our company meetings and written research helps to identify the factors which support long-term value creation.

## Unique investment approach

Our approach of having a genuinely long-term perspective, focusing on growth businesses and running highly differentiated portfolios has proven to be successful over the long term.

## Research capabilities

The lead manager draws on proprietary research carried out by Baillie Gifford investment professionals covering the Developed Asian markets (Japan, Australia, Hong Kong, Singapore and New Zealand). Coverage of these markets is split between members of the Japan and Emerging Market regional equity teams and research is discussed formally at weekly meetings with members of these teams. He is also able to draw on research carried out by our Global and International equities teams.

The analysts responsible for researching Developed Asia companies are mainly trained in-house and gain experience of working in a number of different markets both emerging and developed. They enjoy a high degree of autonomy in selecting companies for investigation as potential investments. Idea generation comes from various sources including industry reports, news reports and observing market trends.



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**Mirbahram Azimbayli**  
Lead Manager

Mirbahram is an investment manager in the Japanese Equities Team. He is lead manager of the Developed Asia portfolios. He joined Baillie Gifford in 2018. Prior to joining the team, Mirbahram spent time working in the Global Alpha and Global Income Growth teams at Baillie Gifford. He graduated BSc in International Relations from the Middle East Technical University (METU) in 2016 and an MPhil in Russian and East European Studies from the University of Oxford in 2018.



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**Iain Campbell**  
Deputy Manager

Iain is an investment manager in the Japanese Equities Team. He is deputy manager of Developed Asia Pacific portfolios and is a member of the International All Cap Portfolio Construction Group. He became part of the International All Cap central desk in 2024. Iain has been a member of the Managed Team since 2014. He joined Baillie Gifford in 2004 and became a partner of the firm in 2020. Prior to joining Baillie Gifford, Iain worked for Goldman Sachs as an analyst in its investment banking division. He graduated BA in Modern History from the University of Oxford in 2000.



# 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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