

Global Alpha

Philosophy and Process



Global Alpha

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Global Alpha Characteristics

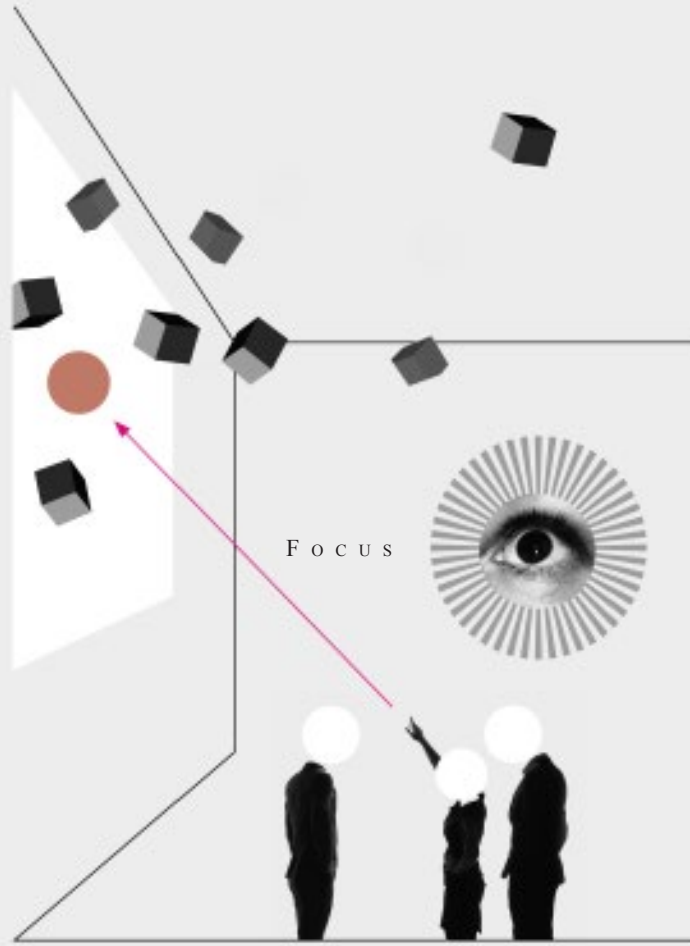
Global Alpha is a long-term global equity growth strategy. Stock selection is bottom-up with a focus on fundamental analysis. The portfolio, investing in c.100 stocks, is well diversified and very different from the index. Our Global Alpha investment managers draw on the broad capabilities of over 100 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 aspirational and in no way guaranteed, nor is it intended to be precise, and is not used for the purpose of determining or constraining the composition of the fund's portfolio. 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. Performance may vary between segregated accounts and pooled funds in different jurisdictions as each structure will bear a different set of costs. A single performance target may not be appropriate for all vehicles in all jurisdictions and for this reason our fund specific materials will often refer to 'material' outperformance of a benchmark. 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.



INSIGHTS



A dedicated team of three investment managers

Spencer Adair, Malcolm MacColl and Helen Xiong 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. They have full ownership and accountability for all portfolio decisions.

'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.85%. 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. Our ‘growth hurdle’ is to look for companies which we believe have the potential to at least double over our five-year investment time horizon. We are patient investors; we believe we can deliver greater outperformance for our clients by assessing a company’s prospects for sustainable growth rather than by predicting short-term share price movements or macroeconomic trends.

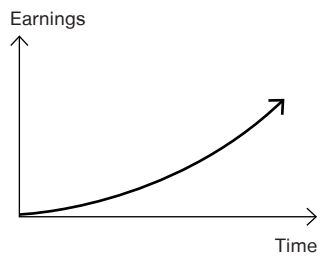
We have an open-minded approach to growth: we recognise that companies grow at different rates and at different times – we embrace the diversity of growth opportunities available to us. We place all the stocks in the portfolio in one of three ‘growth profiles’: Disruptors, Compounders and Capital Allocators. Our growth profile framework helps to set expectations and ensure there is an appropriate diversity of growth across the portfolio. We expect companies in each profile to exhibit different characteristics and perform differently across the market cycle.

For each investment in the portfolio we construct a ‘forward-looking hypothesis’. The purpose is to concisely lay out the core of the investment thesis and ensure a resolute focus on the progress of a company towards our long term growth expectations. We continually retest the thesis as new information about a company arises and in context of the forward-looking hypothesis.

Global Alpha stock growth profiles

Compounders

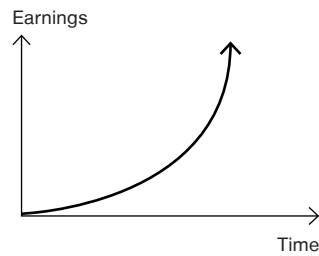
Growth expectations



Durable franchise
Strong competitive advantage

Disruptors

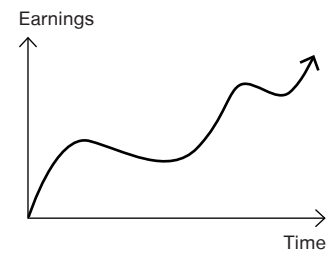
Growth expectations



Innovative disruptors
Vast opportunity

Capital allocators

Growth expectations



Skilled management
Structural growth

Research and Investment Process

The Global Alpha investment managers and analysts spend the majority of their time researching stock ideas. The team also receive input and ideas from a selection of senior investment managers spanning both regional and the smaller companies equity teams, otherwise known as the investment scouts. The team will conduct further research on stock ideas that have been brought to them by the investment scouts if they believe they may merit inclusion in the portfolio.

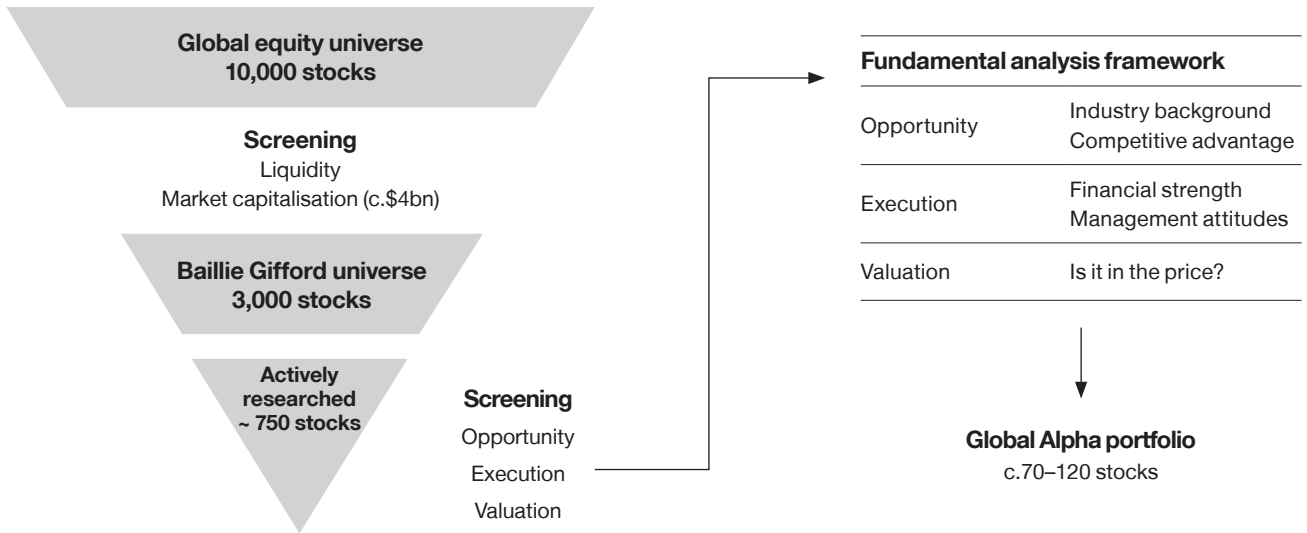
Once our investment scouts have identified ideas, these are promoted to the three Global Alpha investment managers at the six-weekly Portfolio Review Group (PRG) meeting.

The PRG consists of the three managers, and dedicated analysts together with investment scouts. We are not limited to ideas coming from purely the Global Alpha investment analysts or investment scouts, but are also able to utilise the broader investment floor at Baillie Gifford. From time to time, analysts from wider teams may present to the Global Alpha team on specific areas of interest.

At the PRG meeting, the investment scouts 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 investment scout 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, Malcolm MacColl, Spencer Adair and Helen Xiong, 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.

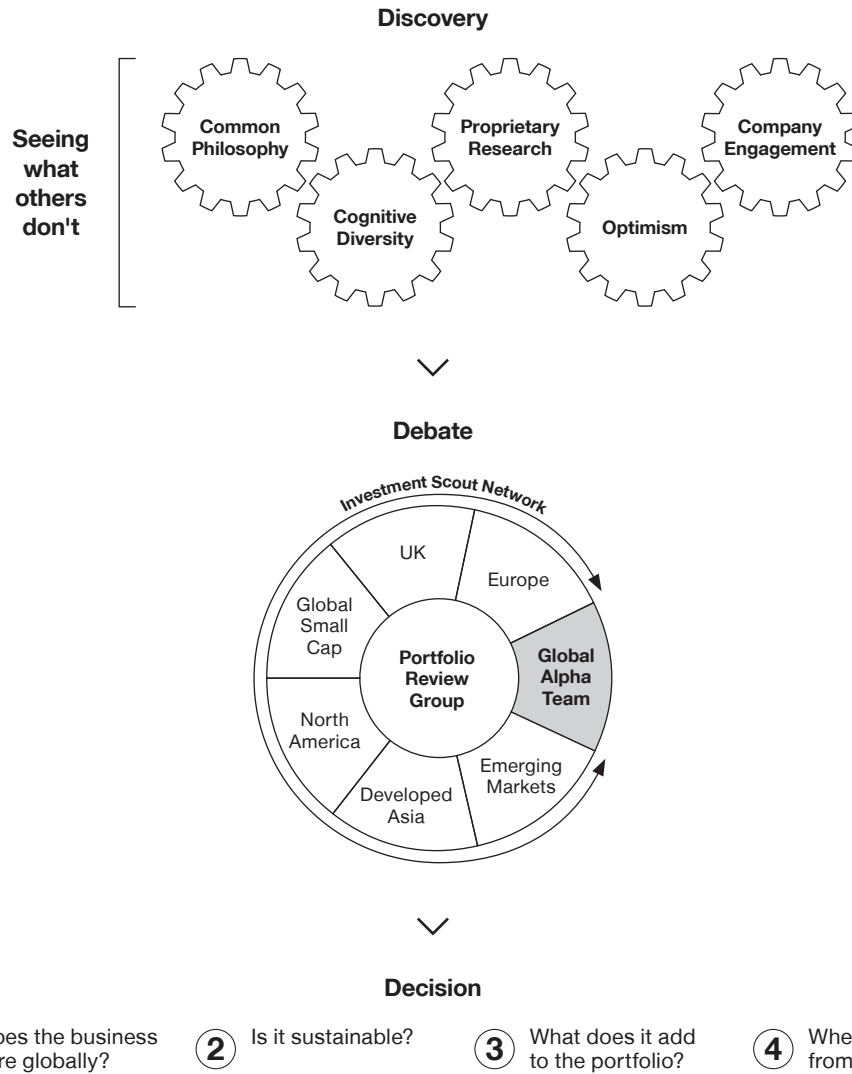
All three investment managers have an equal say in investment decisions, thereby ensuring that a majority decision is always reached. However, where one investment manager strongly disagrees with the other two, this will result in further work being undertaken in order to achieve broader agreement before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

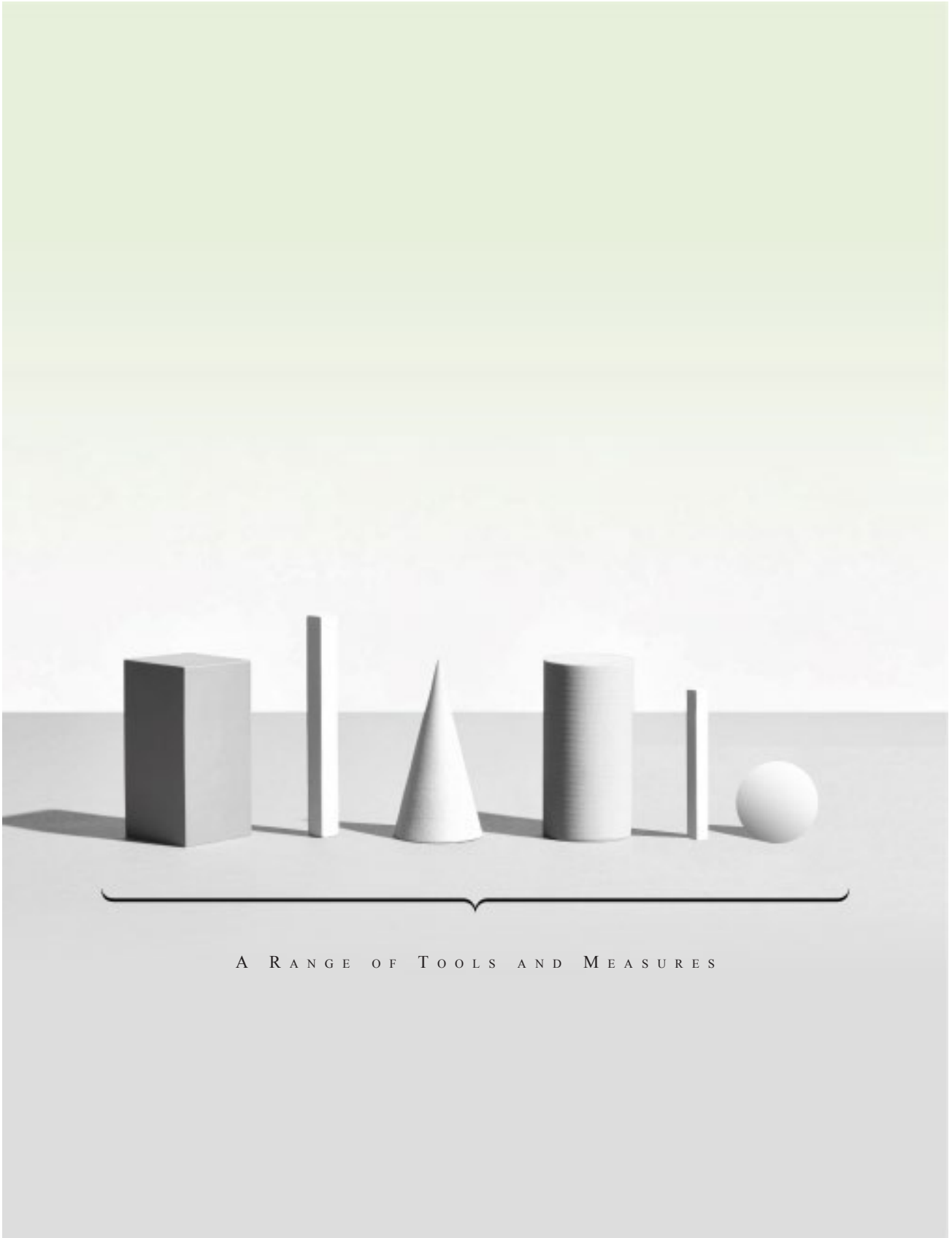
We consider exposures to different risk categories such as commodity prices or inflation – these risk concentrations are not directly captured by reference to an index or benchmark but are important influences on return in the portfolio.

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.

CAREFUL
CONSIDERATION





A R A N G E O F T O O L S A N D M E A S U R E S

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.

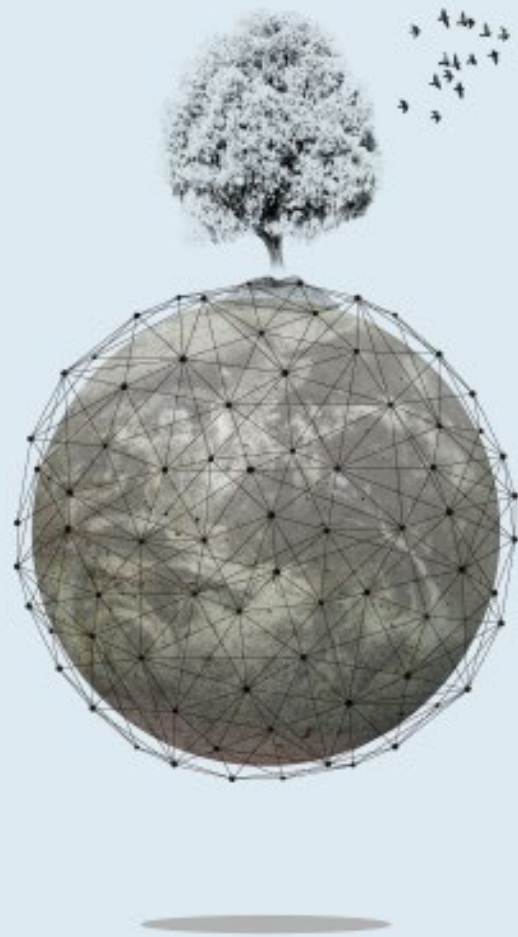
It may not be an appropriate choice for those with low risk appetites, short-term performance time horizons (i.e. less than 5 years), or a desire for smoothed returns.

Stewardship for Growth

The consideration of Environmental, Social and Governance (ESG) factors is a key component of our long-term, active, patient and growth-focused approach to investment management. ESG goes beyond just caring about these environmental, social or governance factors. It is about good stewardship – supporting growth, promoting good decision-making and helping the companies that we carefully select to realize their full potential.

As growth investors, our challenge is to identify exceptional businesses with the potential to deliver outsized, long-term returns for our clients. Such businesses and the talents which build them are rare. Engagement with company management is central to our endeavour and we aim to support and encourage their ambitions while also taking the opportunity to learn from our conversations. Objectivity is vital, and where our views do not align with those of management we will provide challenge.

As long-term holders of companies, it is essential for us to consider the broad stakeholder economics of each of our investments. We believe that ESG factors must be considered carefully given their potential impact on the future health of a business measured through growth and returns. This is a nuanced and complex area which requires thoughtful company-by-company analysis rather than a ‘one-size-fits-all’ approach. Assessment of risks and opportunities forms an intrinsic part of our investment process. Many environmental, social or governance factors will have limited impact on a company’s share price over the short term but can have a meaningful impact over Global Alpha’s typical investment timeframe (five years plus). When thinking about risks, engaging with management teams remains our greatest source of insight. We favour management teams who are themselves acutely aware of future risks from megatrends and are prepared to innovate and invest for the future – often foregoing short-term profitability in order to ensure that the company’s growth remains sustainable as megatrends develop. As growth investors however, we also work hard to think about opportunities. We invest in disruptive, innovative companies that are able to use megatrends as an opportunity to reshape entire industries – generating significant earnings growth and shareholder returns in the process. Innovation of such scales and megatrends of such magnitude rarely develop over short-term time periods. When fully embracing the opportunities thrown up by developments in low-carbon technology, gene sequencing or growing levels of middle-class income, our patient long-term investment horizon remains our key competitive advantage.



G R O W T H



The Global Alpha investment team is responsible for monitoring ESG and Stewardship factors for the Global Alpha strategy. The team's fundamental, long-term investment philosophy fits hand-in-glove with our thoughtful approach to stewardship. We conduct our own proprietary research by assessing management teams, business models and operating practices. Assessing the quality of stewardship is therefore not a separate part of our process. It is intrinsically linked to how we invest.

More broadly, the Global Alpha Team benefit from Baillie Gifford's significant investment in this area. Over the last decade, Baillie Gifford has built a dedicated ESG resource of over 20 analysts. One of these individuals is dedicated to the Global Alpha strategy, working closely with the investment managers. In conjunction with the investment teams, the ESG team conducts research and engagement and co-ordinates the proxy voting process for all our clients' holdings where we retain the voting rights. The primary responsibility of the ESG team is highlighting ESG risks and opportunities to the different investment strategies, monitoring the companies we have holdings in, and challenging them when appropriate.

People

The Investment Managers



Spencer Adair

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. He graduated BSc in Medicine from the University of St Andrews in 1997, followed by two years of clinical training in Edinburgh.



Malcolm MacColl

Malcolm is an 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. He became a Partner of the firm in 2011 and, in 2021, he became Joint Senior Partner with overall oversight for the investment departments. 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.



Helen Xiong

Helen joined Baillie Gifford in 2008 and is a partner and investment manager on the Global Alpha Team. In addition to Global Alpha, Helen has spent time working on our Developed Asia, UK, North America, Emerging Markets and Global Equity Teams. Before coming to live and work in the UK, Helen lived in China, South Africa and Norway. She graduated BSc (Hons) in Economics from the University of Warwick in 2007 and MPhil in Economics from the University of Cambridge the following year.

T E A M W O R K





Why Invest with Baillie Gifford?

Our partnership structure

We believe that no investment firm, however rigorous its approach, can consistently achieve great things for clients if the right corporate conditions are not in place. Baillie Gifford is an independent investment manager, wholly owned by 51 partners who work within the firm. The partnership structure has prevailed for over 110 years and enables us to take long-term views. We see it as a key strength because successful investment management is not easy. It requires dedication, independent thought and a long-term perspective.

We are not a faceless corporation, we are a place where we do everything we can to let individuals thrive and ideas flourish. Our satisfaction comes from the pursuit of knowledge and its application to investments, knowing that if we do a good job, as well as achieving outperformance for clients, we will have contributed to society's progress too.

Experience and collaboration

The partnership structure creates a collaborative culture and one in which people stick around. The Global Alpha investors have an average of more than 19 years' experience and this includes several investors who have spent their entire careers at Baillie Gifford. However, the team doesn't operate in isolation, it draws on the investment ideas of over 100 investors at the Firm to bring together the best stocks and bonds for inclusion in Global Alpha portfolios.

Long-term investment horizon

We are long-term investors in everything that we do. This philosophy permeates the Firm, driven by an understanding that companies don't grow overnight, nor do they grow in a straight line. Inevitably there will be periods of market doubt and volatility, especially for those businesses that are growing quickly. Remaining patient and supportive shareholders during such periods is crucial if our investors are to benefit fully from the asymmetric return potential offered by these companies. A long-term perspective is also valuable in recognising the power of compounding and the performance that can be generated from companies which compound their returns over decades.

Benefitting from multiple perspectives

Imagining what the future may hold requires mental flexibility. We need to imagine the potential implications of dramatic change and embrace uncertainty. We need to be ready to let go of preconceptions, while continuously learning and adapting our thinking to consider what we have learned. Trying to be precise is the enemy of good investing. In times of profound change we believe our interdisciplinary approach gives us an advantage.

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