

International Growth

Philosophy and Process



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Philosophy

We have a simple, enduring philosophy built upon three core beliefs:

Exceptional companies

We know from academic research and our own experience that equity returns are driven by a small number of exceptional companies. They are far from normally distributed. Our investment process is designed to identify these rare businesses, and own them in size for the long term. This is primarily a creative activity. The way we recruit and train people helps us think in ways that are very different from most financial market participants. We focus on what could go right, in order to make the skewness of equity market returns work in our clients' favor. We embrace uncertainty, and believe change is the norm.

Growth investing

We are interested in two types of growth companies: those that are able to grow very rapidly, and those of exceptional quality that can reinvest at high rates of return. In each case we expect a holding to deliver substantial upside over the long term. We believe that markets fail to appreciate both extreme growth and the impact of compounding over time. We maintain this committed growth style through market cycles. We aim to mitigate our clients' risk by increasing their exposure to disruptive growth companies, to set against the considerable market weight of more mature companies that are vulnerable to structural change.

Long-term owners of exceptional growth companies

Patient ownership

We see ourselves as long-term owners of companies on behalf of our clients, with all the attendant behaviours that implies. Our portfolio turnover is low, typically 10–20%.

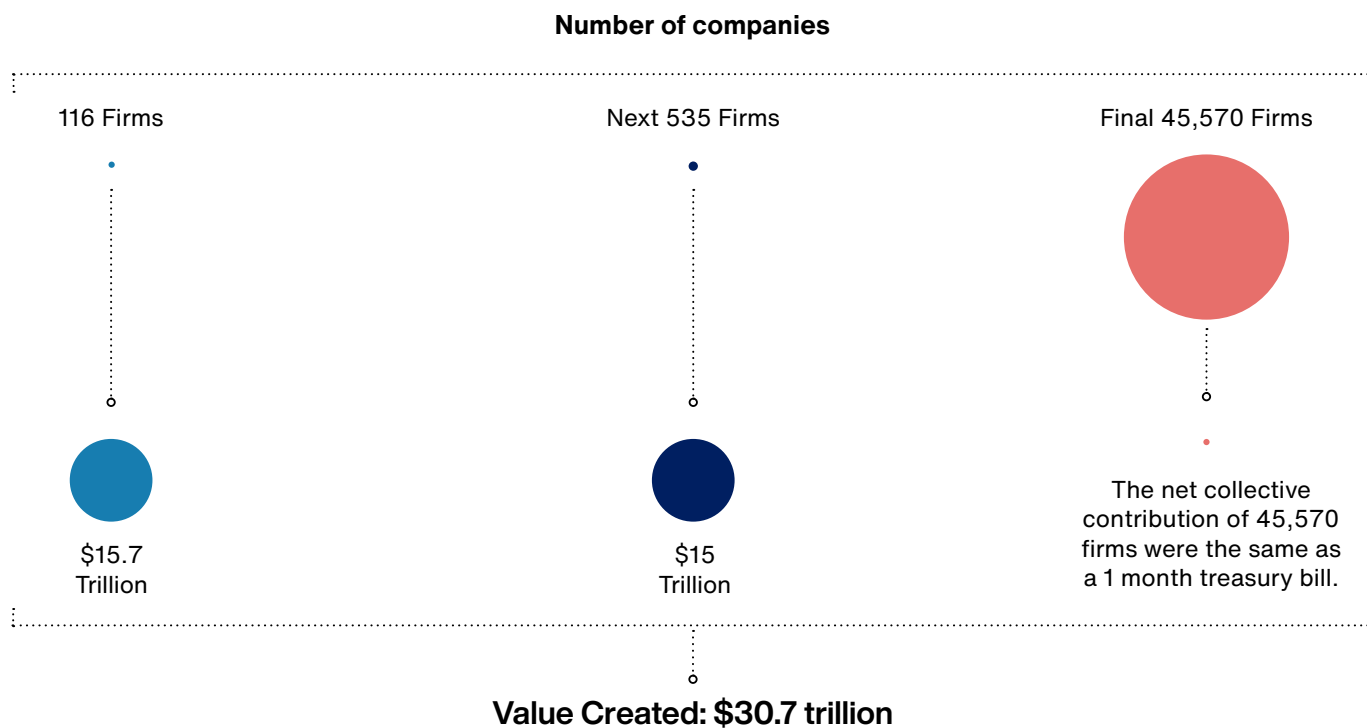
We take our governance responsibilities seriously and have a clear bias to back the judgement of the people managing the companies in which we invest. Once selected for the portfolio, we do not sell shares lightly. We understand the importance of culture, ignoring short-term noise, and acting as a responsible owner.

Consistently low portfolio turnover



Source: Baillie Gifford & Co, MSCI.
Rolling 12 month turnover (03/31/2015–03/31/2025)
based on a representative International Growth portfolio.

Total wealth created by all listed international stocks (1990–2020)



Bessembinder H., Chen TF., Choi G., John Wei. Long-term shareholder returns: Evidence from 64,000 global stocks (August 2021). The first author acknowledges financial support from Baillie Gifford & Co. The data is an international subset of the global data set used in the above paper and includes 46,221 CRSP common stocks from January 1990 to December 2020. In cases where stocks list or delist within a calendar period the return is computed for the portion of the period where data is available. Due to share classes; dollar wealth is assessed at the company level. The evidence includes 46,221 non-US firms, of which 19,690 (42.6%) created positive wealth over their lifetimes. The top 651 firms (1.4%) created wealth equal to the total net wealth creation of all 46,221 firms. The remaining 19,039 wealth creating firms contribute enough to just offset the wealth destruction of 26,531 companies (57.4%).

We have identified several trends that we expect to be long-lasting and of huge significance to our clients, and to the companies in which we invest on their behalf.

The transformational power of technology

We are adherents of Schumpeter's model of creative destruction, in which new companies emerge and destroy existing industries while creating great opportunities of their own. We're not techno-utopians, blind to the impact of new technologies, but we believe that technology in its many forms has been the main driver of human progress. We also believe that we are at a point where the confluence of several different technologies creates the possibility of further transformational change in our world, in areas including healthcare, energy, transport and finance.

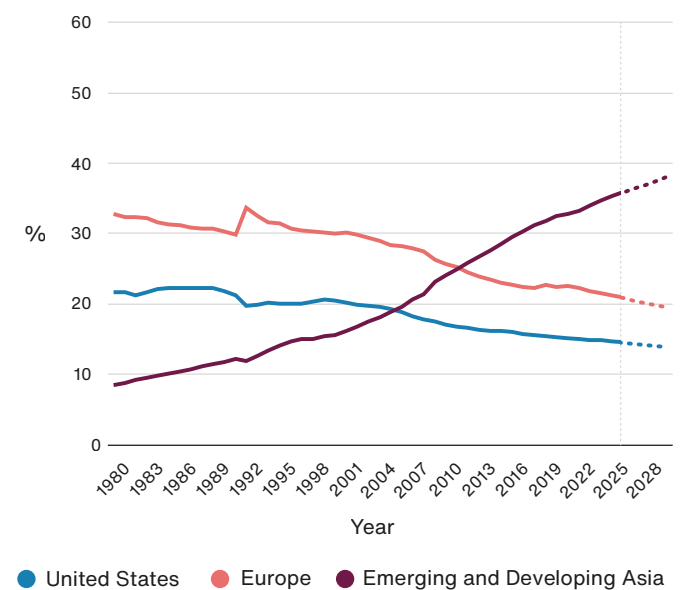
A multipolar world

Around half of the world's population lives in China, India and South East Asia. But it's not just about the sheer number of people. We are increasingly seeing companies migrate up the value-chain, developing innovative products that will deliver real value to their customers and create outlier investment opportunities. We observe similar developments in Latin America. This is already challenging the established world order, not just in economic terms but culturally, technologically and politically. The re-emergence of China is the prime instance of this, and we expect the chronic tension between China and the United States to last for decades. As with every investment we make, we analyze growth opportunity, competitive advantage and organizational culture, while also understanding the company's social license to operate, both domestically and internationally. This last point is critical in understanding whether companies will suffer as a result of geopolitical tension or domestic political considerations. But these developing economies should continue to be a fertile hunting-ground for great investments.

Change is constant, and constantly underestimated

Change comes in two forms. There's the incremental sort, where things move in an almost imperceptible manner but where over time the compounding effect of these small increments adds up to a major shift. Then there's sudden, discontinuous change. Human beings adapt so quickly to the new environment that it can be difficult to appreciate how far things have come. And it can be equally difficult to imagine that further radical change will happen. We analyze a range of potential outcomes for each investment, focusing on the positive returns from unanticipated change.

Share of world GDP, purchasing power parity basis



Process

The International Growth Team's process is designed to identify stocks with exceptional upside potential, and own them for the long term.

Our process is patient and consistent providing the foundation for high conviction, bottom-up, stock picking.

Our idea generation process harnesses a diverse array of information sources. We cast the net wide in our search for new insights, not only meeting management and reading the standard discourse on companies, but also speaking with academics and industry experts, or commissioning specific pieces of investigative research. We take forward ideas by writing our own long-form research pieces, examining all investments against a consistent framework to test the durability of the investment thesis.

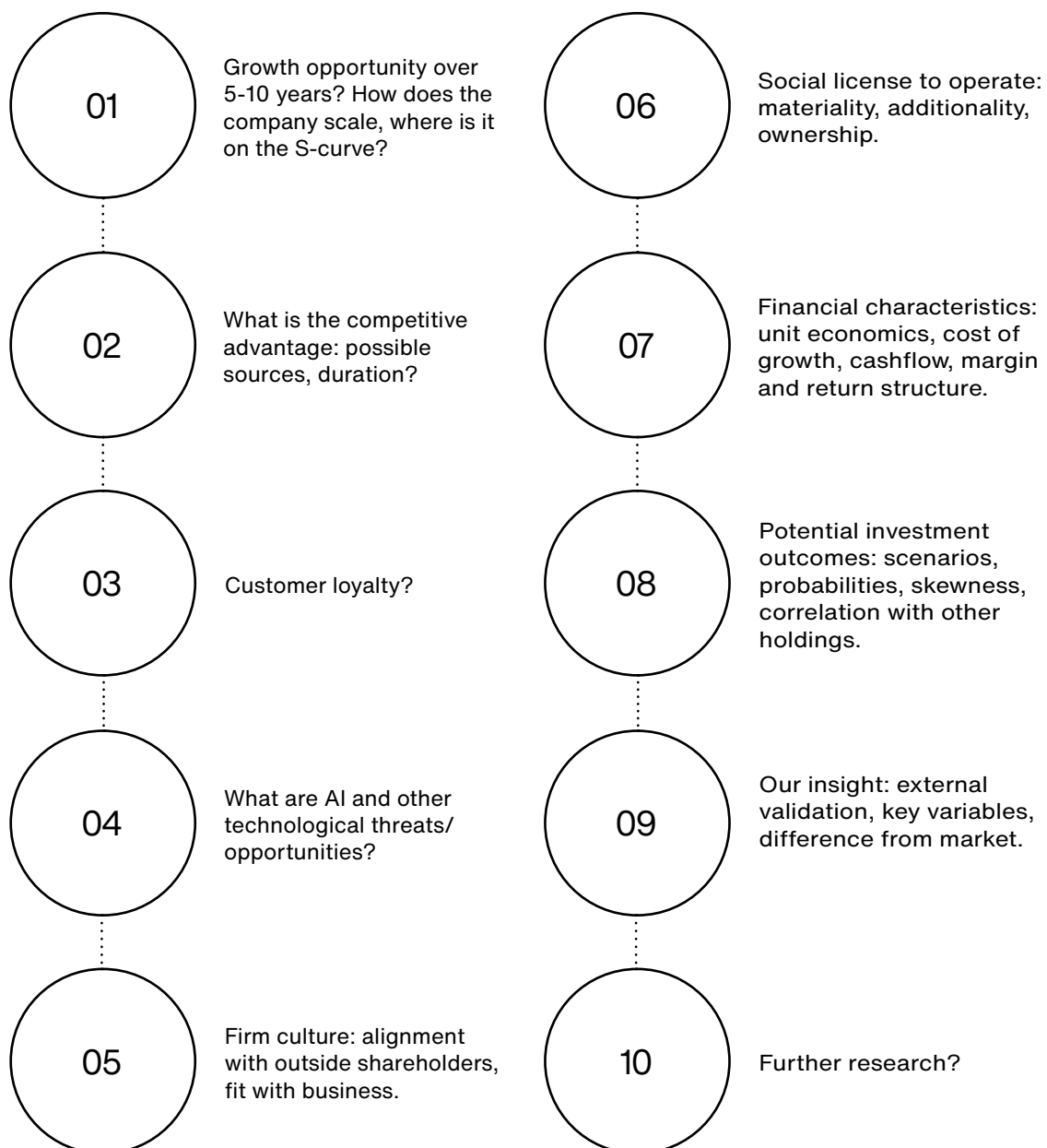
We use a ten question framework, shown on page six, to analyse each potential or existing holding in a consistent way. First, we consider the intrinsic characteristics of the business, particularly its growth potential, competitive advantage, and management approach. If the company performs well against these metrics, we go on to the next stage and consider the relationship of the company with key stakeholders such as employees, customers, and regulators. We believe a long-term holding cannot succeed if it has significant negative externalities.

Finally we assess the range of potential returns from an investment, using scenario analysis to explore the scale and probability of different outcomes.

Our focus is on the upside scenario, and our ambition is to identify outlier companies that have the potential for significant growth. We will take small initial positions, around 0.5% to 1%, in companies with substantial upside potential and moderate chance of success. We build larger positions as our assessment of the probability of success increases. We run our winners.

We monitor holdings on a regular basis and do not adjust the portfolio based on top-down considerations or short-term fluctuations. We will also add to holdings with weaker share prices over the short term assuming the long-term investment thesis is still intact. Once the decision is made to purchase a holding, the position size will reflect our view of the stock's potential upside and the probability we attach to this, rather than market capitalization or other index-based metrics. Initial position sizes tend to be small (around 0.5% to 1%), depending on the range of potential outcomes, and we subsequently add to the holding over time where we see the company developing in line with our investment thesis and our conviction grows.

10 question framework



Risk management

Our approach to risk reflects the role we play in clients' portfolios. Misalignment with clients expectations is the primary risk. Following that is permanent loss of capital. We expect and accept a degree of portfolio volatility over the short term. We seek to ensure that portfolios are sufficiently diversified and managed in accordance with client expectations, whilst at the same time accurately reflecting the team's investment convictions.

Further, we believe that as active investment managers we are trying to predict highly uncertain future events, and that past correlations are unlikely to be accurate guides to the future. Better to attempt to understand how the world is changing by applying our fundamental analytical processes and ongoing research during ownership of a company, and seeking additional insight and challenge from the external sources mentioned earlier.

Portfolio risk

At the overall portfolio level, we employ various measures of risk control that are compatible with our investment philosophy.

To ensure adequate diversification the portfolio is invested in a minimum of 50 holdings. Our guidelines also have minimums on country and sector exposure, allowing us to have different exposure relative to the index while ensuring that the portfolio remains broadly spread.

Traditional risk control processes are followed to provide a check on portfolio construction. Our dedicated Investment Risk Department produces monthly reports, using our external risk models Barra and APT (SunGard) to generate a series of checks in relation to the portfolios.

These checks are summarized in an exceptions report, which is reviewed by the Investment Department in order to ensure that portfolios are operating within the expectations set by the broad risk framework. Any abnormal changes in the risk profile are discussed between the Investment Risk Department and the PCG. Twice a year, the department also produces an independent Portfolio Analytics Review, which provides insights regarding portfolio construction, key themes and biases that may be affecting investor behavior.

Our usage of risk models is pragmatic however, we are very wary of reading too much into patterns that may not hold in the future. The Investment Risk Department, which reports to the Equity Investment Risk Committee, is experienced in using these models and has a detailed understanding of their methodology and their limitations. In recognition of their limitations, principally their reliance on historical relationships remaining constant, quantitative risk models are used as a check on portfolio construction rather than as a direct input into the process.



Liquidity risk

Firm wide liquidity is managed through a Stop/ Caution list which is maintained by the Business Risk Department in conjunction with the Trading Department and ultimately overseen by the Investment Risk Committee. All Investment teams have a set of liquidity guidelines, with which they are required to comply.

Additional scenario analysis is performed by the Trading Department and Business Risk Department to identify any liquidity issues or concerns, either at a strategy level or for the firm wide holding. We continually enhance our approach to liquidity monitoring, with additional data points or metrics incorporated where this provides a useful insight.

Trading risk

Trading is the responsibility of our dedicated Trading Team, which ensures the separation of duties from our investment managers. Our proprietary Restrictions System is designed to prevent inappropriate transactions before trading takes place. This restriction system also helps to avoid excessive concentration of risk by identifying any stock, industry or country exposures that breach our diversification guidelines.

Competitive advantages

We believe that the following factors combine to produce a highly differentiated strategy and exciting portfolio of international growth companies.

Committed to outlier growth investing

We focus on bottom-up, long-term, outlier-seeking, capital-G growth investing.

We know from academic research and our own experience that equity returns are driven by a small number of exceptional companies. They are far from normally distributed. Our investment process is designed to identify these rare businesses and own them in size for the long term.

We believe corporate culture matters

Both our own and those of the companies we invest in. There is no perfect corporate culture, but every organization must create behaviors and incentives, and arrange itself, in the way best suited to its task. Our approach also focuses on the quality of management teams including the level of ambition and the ability to adapt in order to assess the probability that they can execute on the growth opportunity before them.

To generate differentiated insight, we seek wisdom from outside the financial industry

If our research leads us down the same channels as the rest of the industry, then all we are doing is increasing the chances of delivering the same results as the rest of the industry.

Consequently, we eschew routine information sources and traditional sell-side analysis. Instead, we place greater emphasis on conversations

with company management (in private and public markets), authors, industry experts and academics who can help us develop our view of the world and how it is changing. We have built numerous formal relationships with academics and universities, which helps inform our long-term thinking about investment opportunities.

A portfolio well-placed to address deep structural trends

The shift to a multipolar world is well underway. Technological innovation will continue—in generative AI and other realms—and consumers, whether in young, fast-growing countries or older, more mature ones, will continue to demand high-quality goods and services.

A consistent approach road-tested through multiple cycles

The International Growth Strategy has existed since 2003. While our investment thinking and portfolios have evolved over that time, we have always been long-term, active, growth investors. Our philosophy has been applied consistently over the years.

A stable, supportive firm focused on the long-term

Founded in 1908, our firm's multi-generational partnership structure is key. Much like the businesses we invest in, we foster a culture of adaptability and continuous improvement. This structure ensures business stability, a relentless focus on long-term investing and strong alignment with our clients' interests.

People

Our team has considerable experience working together, and is incentivised by collective results. We back individual conviction for new ideas, and take collective responsibility for the whole portfolio.

The PCG is responsible for all aspects of the strategy.

The PCG draws on the research conducted by all of Baillie Gifford's investment teams, and also has its own dedicated research desk to pursue and develop ideas of particular interest. It is the responsibility of the PCG members to identify and bring forward ideas from these streams of research.

The PCG meets regularly to discuss the buy and sell ideas of its members, and their level of conviction in current holdings.

This process encourages portfolio integration and allows us to allocate funds to the most attractive stocks regardless of their nationality or sector. It also integrates client requirements such as risk tolerance and investment restrictions into the construction of the portfolio.

The PCG encourages its members to express their individual convictions about stocks and seeks to support them whenever appropriate. The group takes collective responsibility for the portfolio and supports each other through the inevitable pressures of bottom-up stock picking.

We back individual conviction for new ideas, and take collective responsibility for the whole portfolio



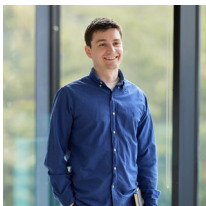
Tom Coutts*
Chair

Tom has been a member of the International Growth Portfolio Construction Group since 2008 and took over as chair in July 2019. He joined Baillie Gifford in 1999 and became a partner in 2014. He previously spent time in our UK and European Equity teams, including six years as head of the European Team up to 2017. He also spent three years as our chief of investment staff. Tom graduated with a BA in Modern Languages in 1994.



Lawrence Burns*
Deputy Chair

Lawrence has been a member of the International Growth Portfolio Construction Group since 2012. Lawrence is co-manager of the International Concentrated Growth and Global Outliers strategies. He joined Baillie Gifford in 2009 and became a partner in 2020. He has been deputy manager of Scottish Mortgage since 2021. He has also worked in the Emerging Markets and UK Equity teams. Lawrence graduated BA in Geography from the University of Cambridge in 2009.



Robert Wilson
Investment Manager

Robert has been a member of the International Growth Portfolio Construction Group since 2024. He joined Baillie Gifford in 2016. Robert was previously a decision-maker on Baillie Gifford's Long Term Global Growth Strategy before joining International Growth. He has also worked on our US, European, and Multi-Asset strategies. Robert is a CFA Charterholder and graduated MA (Hons) in Philosophy from the University of Cambridge before winning a Mellon Fellowship at Yale in 2015.



Julia Angeles*
Investment Manager

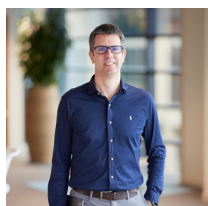
Julia has been a member of the International Growth Portfolio Construction Group since 2017. She joined Baillie Gifford in 2008 and became a partner in 2022. She previously worked as a management consultant at McKinsey & Company, advising firms in Denmark, Russia and Hungary. Julia obtained a BSc in 1999, an MSc in 2001 and a PhD in 2005 in Economics from the University of Aarhus, Denmark. She is fluent in Russian and Danish.

* Partner



Brian Lum
Investment Manager

Brian has been a member of the International Growth Portfolio Construction Group since 2015. He is an investment manager in the Japanese Equities Team and is the lead manager of the Shin Nippon Investment Trust and co-manager of the Japanese Smaller Companies Fund. Brian joined Baillie Gifford in 2006. He is a CFA Charterholder and graduated with an MSc and BA (Hons) in Physics from the University of Cambridge in 2006.



Nick Thomas*
Client Relationship
Director

Nick has been a member of the International Growth Portfolio Construction Group since 2003. He is the head of our Clients Department, which is responsible for servicing our global client base. Nick previously worked as an investment manager in the Developed Asia Equity Team before transferring to the Clients Department in 2009. Nick joined Baillie Gifford in 1998 and became a partner in 2010. He is a CFA Charterholder and graduated BA in Classics from the University of Cambridge in 1998.



Katie Muir
Investment
Specialist Director

Katie is an investment specialist in the International Equities group and has been a member of the International Growth Portfolio Construction Group since 2025. She joined Baillie Gifford in 2021, prior to this, she spent six years at Dundas Global Investors and more than a decade at RBS. Katie graduated BA in Accounting & Financial Analysis from the University of Newcastle in 2001 and holds qualifications from the CISI.

* Partner

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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