

Long Term Global Growth

Philosophy and Process



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Philosophy

Long Term Global Growth (LTGG) is a purely stock-driven, unconstrained global equity strategy focused on investing in exceptional growth companies. The approach is committed and expressly long term. We believe that by investing in companies with the scope to grow to multiples of their current size, has the potential to transform the long term returns achieved for our clients.

Long term

This matters. Stock prices are wildly unpredictable in the short term. Ultimately, however, prices do reflect a company's earnings capability. So, when we find a company that has the potential to grow its profits significantly over time, we must invest with the patience that allows a good decision to prove its worth.

We believe that the investment industry is ill-equipped to deal with the behavioural and emotional challenges inherent in today's capital markets, where the time horizons of the vast majority of market participants have continued to shrink and the turnover of shares is at multi-decade highs.

Our long term time frame and ownership structure help us to fight these dangers. We are besieged by news, data and opinion. The bulk of this information is of little significance, but it can encourage one to take rapid and usually futile action. This can be particularly damaging at times of stress. Academic research argues that most individuals dislike financial losses twice as much as they take pleasure in gains. This is compounded by internal and external pressures in our industry to make the avoidance of loss dominant. This is damaging to returns.

In a portfolio context, we need to be willing to accept loss if there is an equal or greater chance of unlimited gain. Long term success requires risk taking and ambition, not caution and downside protection.

Embracing asymmetry

In our experience, results are determined less by bell curves in equity investment than by exposure to extreme positive events. Academic research corroborates this dynamic across a range of markets, where over meaningful time periods, stock market returns are disproportionately driven by a very small percentage of stocks that deliver outsized returns.

If we accept this to be true, then it requires applying an investment process that can maximise our chances of identifying outlier stocks and holding them in size, often through periods of significant volatility.

Stock driven

We take a global approach to stock selection. Portfolio construction is purely stock-driven, with no reference made to benchmark indices during our investment process. Portfolio holding sizes are based purely on the magnitude of the potential upside and the associated level of conviction.

We have a strong conviction that the portfolio should be comparatively concentrated. We believe this produces better investment results and it certainly makes us more committed shareholders of companies.

Process

Our investment process is all about research and debate, founded on the clear idea that portfolio returns are determined by exposure to outlier companies. Our research framework asks investors to think creatively, beyond the constraints of traditional information sources, to find the best growth companies irrespective of where they may be or what industry they operate in.

The 10-Question Stock Research Framework

We believe that the discipline of having a formal investment process is essential, such is the noise level and impatience of markets. Our 10-Question Stock Research Framework has always sat at the heart of our investment process.

The first two questions consider the scale of the opportunity for a company, predominantly beyond the next five years. We set a high bar in terms of the quantum of growth we aspire to, focusing on identifying companies with the potential to grow to many multiples of their current size.

Establishing that a company has a long-term growth opportunity is no guarantee of success, as to turn opportunity into financial returns requires an enduring competitive advantage and exceptional management ability. The former is obvious and a natural area of focus for us when researching companies – what stops everyone else from doing the same thing and eroding returns? The significance of the latter, management ability, is becoming greater in our view as the pace of change accelerates and the scale of the opportunity expands.

We believe that the rewards for backing a visionary management (or better still culture) through periods of great disruption and opportunity are potentially large. The challenge is choosing which cultures and managements should be admired, trusted and followed.

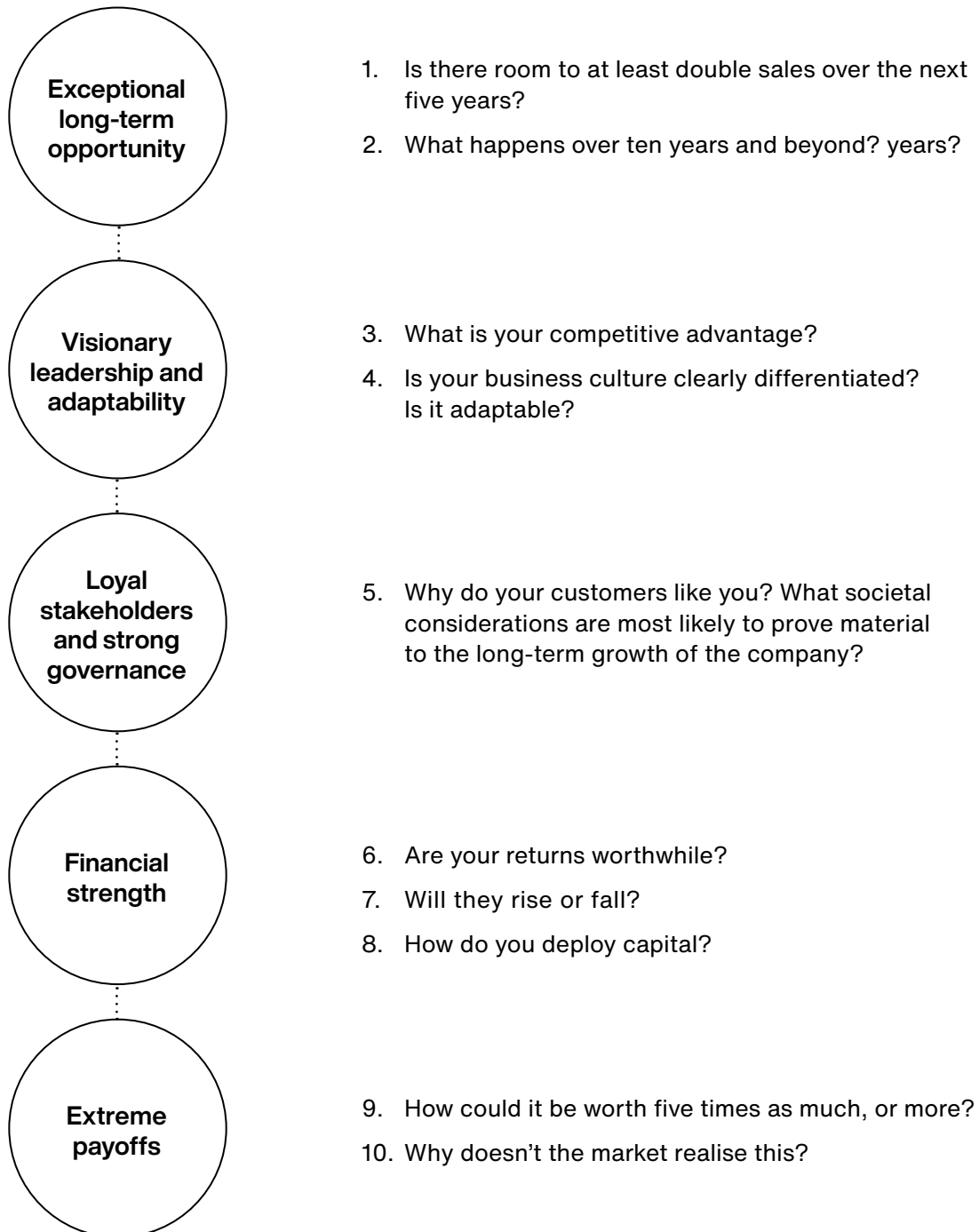
Simplifying this as far as possible, we concentrate on looking for three features: a distinctive vision with actions to match, a long-term perspective, and a pattern of motivations (and incentives) that support the first two.

Our willingness to factor a company's durability and longevity into our analysis sets us apart from most market participants. This is often the differentiating factor in our view of an individual company's valuation compared to the broader market. If we can be right about the scale of the opportunity for a company, its competitive advantage, and the cultural factors, then valuation tends to fall into place. In our view it becomes a question of sizing the potential growth opportunity over the next five to ten years, the associated returns, and then assessing the probability of those being achieved.

In a world of explosive growth potential and deep complexity in economic outcomes, we believe that our approach, with its focus on potential returns for (often revolutionary) companies many years ahead, is better suited to achieving investment success over the long term than relying solely on conventional financial ratios.

This consistent, repeatable process has proven its effectiveness through a variety of market conditions over the past 20 years.

10-Question Stock Research Framework



Idea generation

Each member of the Long Term Global Growth (LTGG) Team is given free remit to explore their enthusiasms. Any global equity may be considered for the portfolio. However, typically, a company will have reached a market cap of US\$4bn, at the time of first purchase. Our research on companies, however, will often commence before they have reached this size, indeed, some companies have yet to come to the public markets.

ESG

We look for companies that have the foundations in place for longevity, which in turn requires an ability to unlock sustainable growth opportunities to deliver superior returns for our clients. So, whether you call it ESG, responsible investing, sustainability or other similar terminology, the underlying requirement for such considerations to form an intrinsic part of a company's character and behaviour is the same. It is fundamentally important to long-term stockpickers like ourselves and therefore these considerations are embedded in our approach. All too often in our industry, 'ESG' is reduced, oversimplified and too reliant on metrics and downside mitigation. For us, the possibility of companies turning ESG into a competitive cultural advantage that unlocks upside is exciting and it reinforces the long-term opportunity for our clients. There are, as always, lots of challenging conversations ahead, but the LTGG Strategy needs to be able to navigate in the necessary societal and environmental changes to come.

Seeking alternative perspectives

One of the most important sources of insight for us is the relationships we have been able to build with companies directly as long-term investors, with an interest in their cultures and competitive advantages. Engaging with companies in this way is a crucial part of our process. We are also deepening and expanding our connections with academia as we seek to better understand major transitions affecting the world, such as Delft University of Technology's work on aeronautics and autonomous vehicles, Tsinghua University's research into computational biology, the Leverhulme Centre for activities on artificial intelligence, and Mike Berners-Lee at the University of Lancaster on climate.

Portfolio construction

Once a stock has been fully researched and discussed by the entire team, the decision makers are responsible for determining whether it is worthy of inclusion (or otherwise) in the portfolio. Emphasis is placed on backing enthusiasm rather than achieving a full consensus.

Between 30 and 60 companies can be held in the portfolio. However, over the past decade this has tended to be between 30-40. This means the allocation is controlled by the number of intrinsically attractive opportunities available, not by geographical, sector or thematic considerations. If a decision is made to purchase a company for the portfolio, the size of the holding will reflect our view of its potential upside and the probability we associate with this, rather than market capitalisation or other index-based metrics. This methodology is used throughout our holding period.

The end result of our portfolio construction process is a high conviction portfolio of global companies with exceptional growth characteristics.

Risk

From our perspective, the real risk in LTGG portfolios is the permanent destruction of capital if our analysis of a company's growth opportunity proves to be wrong, or the risk of missing out on buying a company that subsequently posts very strong returns. We seek to manage this risk in a variety of ways.

The Investment Risk, Analytics and Research Department has a range of tools at their disposal to provide analysis and to monitor the portfolio on an ongoing basis. These are used pragmatically and in a way that is consistent with the overall objectives of the LTGG approach. The Investment Risk, Analytics and Research Department also reports formally to Baillie Gifford's Investment Risk Committee on the consistency of the LTGG portfolio with its overall objectives. Additionally, they undertake projects on behalf of the LTGG Team if an alternative perspective is required on specific areas of interest. These projects have included producing an alternative and independent view of the thematic concentrations in the portfolio and trying to identify 'missed' growth opportunities.

Fundamental risk

Our first line of defence is rigorous stock analysis. Our initial research of companies is thorough and we continually review and monitor the investment cases for each company once it is in the portfolio, using the scenarios established in our initial research as a basis for gauging how it is performing operationally compared with our expectations. We will tolerate uncertainty in an investment case and embrace the possibility that any individual investment may have a wide range of outcomes.

Investment guidelines

Performance holdings	Stock range
Portfolio Holdings	30–60
Stocks	Maximum 10% in one company
Sectors	Minimum 6
Countries	Minimum 6

Portfolio Risk

In addition to thinking carefully about the fundamental case for each individual investment in the portfolio, we manage the overall portfolio within a series of investment guidelines which are intended to ensure that there is a sufficient level of diversification in the portfolio. We believe that these controls are prudent in the context of the portfolio's overall objective of maximising returns over periods of five years and beyond.

The thematic concentrations that result from our stock driven portfolio construction process are also monitored and discussed on a regular basis. We do not use the geographical or sector definitions provided by traditional index providers for this purpose. We group stocks by the long term growth drivers we have identified in our investment research, which is a subjective process, but we believe that it is more consistent with our view that the real risk in the portfolio lies in the growth opportunities identified for individual companies not playing out, rather than how index providers choose to classify the companies in benchmark indices.

The rule of thumb applied in this respect is an upper limit for exposure to one theme of 25% of the portfolio, a position which will trigger a discussion of its implications rather than automatically lead to action.

Euler Diagram



Based on a representative Long Term Global Growth portfolio, new client portfolios may not mirror the model portfolio exactly. As at 30 December 2024.

People

The LTGG team is characterised by stability, experience, and commitment. The four decision makers shown below are further supported by dedicated analysts. All members of the LTGG team are generalists reflecting our view that the imposition of sector or geography coverage can constrain the open-mindedness we require in the search for the world's best growth companies.



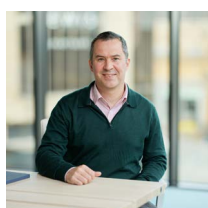
Mark Urquhart*

Mark is head of the Long Term Global Growth Team, which he co-founded in 2003, and a decision maker on the strategy. He joined Baillie Gifford in 1996 and became a partner of the firm in 2004. Prior to his current roles, he worked in the US, UK and Japanese equity teams. Mark graduated BA in Philosophy, Politics and Economics from the University of Oxford in 1992 and spent a year at Harvard as a Kennedy Scholar in 1993 before completing a PhD in Politics at the University of Edinburgh in 1996.



Gemma Barkhuizen

Gemma is an investment manager and decision maker in the Long Term Global Growth Team and co-manager of the Global Outliers Strategy. She is also an advisor to the Global Alpha Strategy. Gemma joined Baillie Gifford in September 2017, after graduating with a Masters degree in Modern History from Durham University. She also has degrees in History and Philosophy from Rhodes University in South Africa.



John MacDougall*

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 (PCG). 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.



Michael Pye

Michael is an investment manager and decision maker in the Long Term Global Growth Team. He joined Baillie Gifford in 2013. Michael graduated MA in Classics from the University of Cambridge in 2007 and gained a PhD in International Relations from the University of St Andrews in 2013. He is also a CFA Charterholder.

*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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