

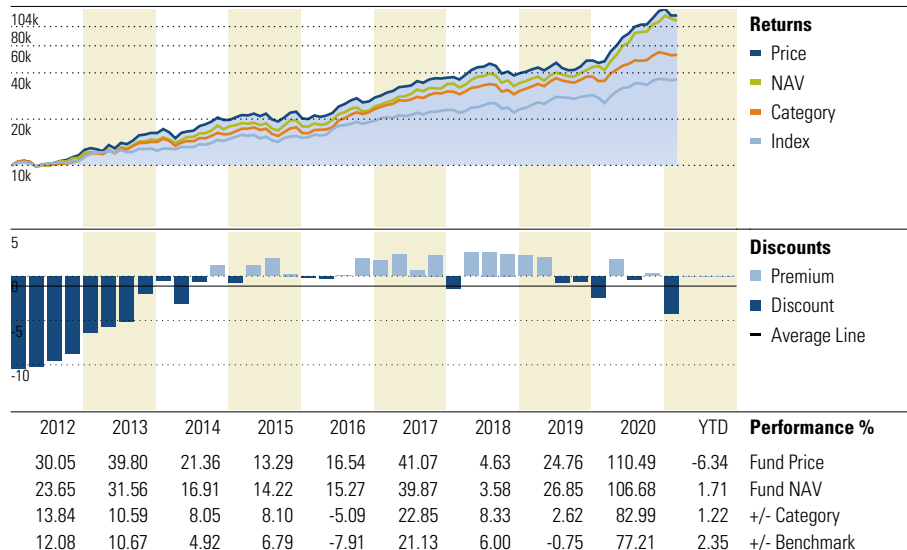
# Scottish Mortgage Ord SMT

Morningstar Rating™  
★★★★★

Morningstar Analyst Rating  
Silver  
3/25/21 09:27  
UTC-0500

**Morningstar Benchmark** MSCI ACWI Growth NR USD  
**Morningstar Category™** Global Large-Cap Growth Equit

Last Closing Price GBP	11.93
Last Closing NAV GBP	12.20
Discount/Premium %	-2.24
Latest Published NAV	—
Latest Published NAV Date	—
Traded Currency	GBP
Yield	0.27
Dividend Frequency	Semi-Annually
Total Assets £ Mil	18,393.5
Net Assets £ Mil	17,340.6
Market Cap £ Mil	16,952.8
Net Gearing %	5.00
Avg Daily Shares Traded Mil (3 month)	5.52
Inception Date	01/01/1909



## Morningstar Analyst: Robert Starkey, Analyst

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## Executive Summary

**People:** Consistency is the watchword here. James Anderson has been manager since 2000 and the company under Baillie Gifford's stewardship since launch in 1909. More recently Tom Slater has been deputy since August 2009 and co-manager since January 2015.

**Parent:** Baillie Gifford is a privately owned partnership with an institutional focus. Senior managers have the opportunity to gain equity ownership, which has led to stability among its ranks.

**Board:** Professor Bhidé was appointed in May 2020 and Professor Kay retired in June 2020. Mr Dowley is now the senior independent director of the five nonexecutive directors. The directors continue to bring academic, scientific, and financial experience.

**Process:** The investment management team apply a patient and disciplined approach to global equity investment. The process is benchmark-agnostic and in addition the trust is likely to have material exposure to unlisted investments.

**Performance:** Returns here have been standout, with the strategy outperforming its category index benchmark over the short, medium, and long term. Investors, however, can expect these returns to come with substantial volatility and need to take a long-term view.

**Fees:** An ongoing charges ratio of 0.36% (March 2020) is off-set when the cost of the debt is considered. While a Representative Cost of 0.77% is not as attractive as the management fee alone, this is still attractive given the access to unquoted assets.

## Role in Portfolio

Supporting. Whilst the strategy nominally provides exposure to global equities, investors should be cognisant that the highly active nature of the management, the inclusion of unlisted investments, structural gearing and a relatively concentrated portfolio, are likely to lead to a bumpy ride at times. This should be a long-term investment and part of a wider diversified portfolio.

## Morningstar Opinion

05 Aug 2020 |

**\*\*24th March 2021 –** It has been announced that James Anderson will retire in April 2022. There is a strong global team at the firm and we will evaluate this change further as part of our upcoming formal review.

Scottish Mortgage Trust continues to deliver on its unique mandate. Under our enhanced ratings framework, which places a greater emphasis on fees and expected benchmark-relative performance, the combination of a best in class team with a well-executed process awards the strategy a Morningstar Analyst Rating of Silver, down from Gold.

The strategy is headed by the well-regarded duo of James Anderson and Tom Slater. Slater holds dual roles; he is a decision-maker here and also heads the North American desk. Anderson has managed the trust since April 2000, while Slater has 20 years' investment experience. In common with most teams at Baillie Gifford its members have accrued almost all their investment experience in house. The duo can also draw on the group's wider investment teams, comprising around 100 investment professionals.

The company sets a very high standard for shareholder communication and articulation of the process through regular and up-to-date reporting, including full holdings and frequent road shows. The use of specialist websites with in-depth articles and thought leadership pieces adds an extra element of transparency and colour

around this idiosyncratic and esoteric portfolio.

The investment approach followed here focuses on identifying high-growth companies and holding them for the long-term to gain the benefit of compounded growth. These companies will often have been new entrants or disruptors into a region or industry, radically changing the landscape and challenging the business model for the traditional incumbents. Portfolio turnover tends to be very low and active share high as the approach pays no heed to benchmark constituents when making investments. The company has long had an element of unlisted equity investment. The previous maximum limit was set at 25% but has been increased to 30% on the back of shareholder approval. The management believes that many companies are able to perform better away from the spotlight of quoted markets where there is increasing focus on quarterly figures to the detriment of longer-term investment and growth.

As patient and cornerstone investors in a range of unlisted companies, the managers have gained the reputation as long term supporters of management and hence have been able to gain access to a range of unlisted opportunities. The closed ended nature of the trust makes such investment eminently more appropriate than for an open-ended structure.

The nature of this high-growth, leveraged portfolio means it is likely to be volatile, and while we are reassured by the experience of Anderson and Slater, risk-averse investors need to factor this into their considerations.

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## Morningstar Analyst Rating

	2019	2020	2021
Gold			
Silver			
Bronze			
Neutral			
Negative			
Under Review			
Not Rateable			

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The date shown next to the Morningstar Analyst Rating is the date on which Morningstar Manager Research Analyst assigned or reaffirmed the current rating for the fund based on the analyst's latest review and research report for the fund.

## The Five (5) Pillars

Morningstar has identified five key areas that we believe are crucial to predicting the future success of funds: People, Parent, Process, Performance, and Price. Each pillar is evaluated when assessing a fund as well as the interaction between the pillars, which we believe is crucial to understanding a fund's overall merit.

### People

The overall quality of a fund's investment team is a significant key to its ability to deliver superior performance relative to its benchmark and/or peers. Evaluating a fund's investment team requires that analysts assess several relevant items including how key decisions are made.

### Parent

We believe the parent organization is of utmost importance in evaluating funds. The fund's management set the tone for key elements of our evaluation, including capacity management, risk management, recruitment and retention of talent, and incentive pay. Beyond these operational areas, we prefer firms that have a culture of stewardship and put investors first to those that are too heavily weighted to salesmanship.

### Process

We look for funds with a performance objective and investment process (for both security selection and portfolio construction) that is sensible, clearly defined, and repeatable. In addition, the portfolio should be constructed in a manner that is consistent with the investment process and performance objective.

### Performance

We do not believe past performance is necessarily predictive of future results, and this factor accordingly receives a relatively small weighting in our evaluation process. In particular, we strive not to anchor on short-term performance. However, we do believe that the evaluation of long-term return and risk patterns is vital to determining if a fund is delivering to our expectations.

### Price

To reflect actual investor experience, price is evaluated within the context of the relevant market or cross-border region—for example, the United States, Australia, Canada, or Europe. In recognition of differences in scale and distribution costs in various markets, the level at which a fund is penalised for high fees or rewarded for low fees can vary with region. In Europe, for example, funds are penalised if they land in the most expensive quintile of their Morningstar category and are rewarded if they land in the cheapest quintile. The assessment is made using annual expense ratios, but in the case of funds with performance fees, expenses are evaluated excluding any performance fees and then the structure of the performance fee is evaluated separately.

## Morningstar Analyst Ratings

Morningstar Analyst Ratings are assigned on a five-tier scale running from Gold to Negative. The top three ratings, Gold, Silver, and Bronze, all indicate that our analysts think highly of a fund; the difference between them corresponds to differences in the level of analyst conviction in a fund's ability to outperform its benchmark and peers through time, within the context of the level of risk taken.

### Gold

Represents funds that our analyst has the highest-conviction in for that given investment mandate. By giving a fund a Gold rating, we are expressing an expectation that it will outperform its relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five

years). To earn a Gold rating, a fund must distinguish itself across the five pillars that are the basis for our analysis.

#### Silver

Represents funds our analyst has high-conviction in, but not in all of the five pillars. With those fundamental strengths, we expect these funds will outperform their relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years).

#### Bronze

Represents funds that have advantages that clearly outweigh any disadvantages across the pillars, giving analyst the conviction to award them a positive rating. We expect these funds to beat their relevant performance benchmark and/or peer group within the context of the level of risk taken over a full market cycle (or at least five years).

#### Neutral

Represents funds in which our analysts don't have a strong positive or negative conviction. In our judgment, these funds are not likely to deliver standout returns, but they aren't likely to seriously underperform their relevant performance benchmark and/or peer group either.

#### Negative

Represents funds that possess at least one flaw that our analysts believe is likely to significantly hamper future performance, such as high fees or an unstable management team. Because of these faults, we believe these funds are inferior to most competitors and will likely underperform their relevant performance benchmark and/or peer group, within the context of the level of risk taken, over a full market cycle.

Morningstar may also use two other designations in place of a rating:

#### Under Review

This designation means that a change that occurred with the fund or at the fund company requires further review to determine the impact on the rating.

#### Not Ratable

This designation is used only where we are providing a report on a new strategy or on a strategy where there are no relevant comparators, but where investors require information as to suitability.

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#### Equity-Related Data Points

The Report lists the fund's top ten holdings as of the dated noted. For each underlying holding, a series of data points is provided including, where applicable, that security's Economic Moat as of the date noted.

##### Economic Moat

The concept of an economic moat plays a vital role in our equity analyst's qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of its fair value estimate. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a *narrow moat* are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. *Wide-moat* companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, *no-moat* companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

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