

Annual Business Update

2020



Investment managers

This paper is intended solely for the use of professional investors and should not be relied upon by any other person. It is not intended for use by retail clients.

Risk Factors

The views expressed in this article are those of the authors and should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect personal opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions

This communication was produced and approved in March 2020 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

Potential for Profit and Loss

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

Stock Examples

Any stock examples and images used in this article are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style.

This article contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned.

The performance shown in this table relates to the infographic on page 10

Annual Past Performance to 31 December Each Year

	2015	2016	2017	2018	2019
LTGG Composite Net (%)	13.5	-4.0	54.0	-1.6	34.1
EM All Cap Composite Net (%)	-8.4	2.7	53.2	-15.1	27.9
EAFE Plus All Cap (%)	1.7	0.7	31.2	-16.9	32.2

Source: Baillie Gifford & Co. US Dollars.

Changes in the investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio.

All information is sourced from Baillie Gifford and Co and is current unless otherwise stated.

The images used in this article are for illustrative purposes only.

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www.bailliegifford.com/businessupdate

11 years
Average length of
client relationships



Assets under management

£218.6 billion | **US \$289.6 billion**

Flows in 2019

£417.1 million of net inflows
£21.8 billion of inflows and
£21.4 billion of outflows

US \$645.8 million of net inflows

US\$27.9 billion of inflows and
US\$27.3 billion of outflows



Staff Turnover
in 2019

3.6%
(investment staff: 3.7%)



Degree Disciplines
(investment professionals only)



Total staff
1,285

Including 271
investment professionals
(1,128 and 250 in 2018)

Introduction

Welcome to our 2020 update. On the surface, very little has changed since our last paper. Our approach to investing and putting our clients' needs first has been, and always will be, a constant. However, we know that we cannot stand still. We are constantly listening to our clients and, as their needs change, we adapt our line-up of investment strategies and vehicles in a well-considered and sustainable manner. Our assets under management have continued to grow, mainly due to rising markets and strong investment performance, which remains good for most clients over the long term.

We start this update with the recognition that our business is run for the long term and that this year is a continuation in a hundred-year plus history, with the same values reflected in our partnership structure and low staff turnover. We cover the important research that Professor Hendrik Bessembinder published and how that resonates with our philosophy of being truly active managers; our approach to investing in the unlisted equities space and the priority we have given to governance and sustainability in recent years. We also share with you our excitement on the investment opportunity in China and beyond.

There is an update on those strategies that have celebrated significant anniversaries this year and on more recent focuses for the firm, such as expanding our income offering, and beginning the conversations with existing clients and prospects on our multi asset capabilities outside the UK. Finally, there is a section on diversity and inclusion and the steps we have been taking to make sure Baillie Gifford remains an inclusive and rewarding place to work for all staff.

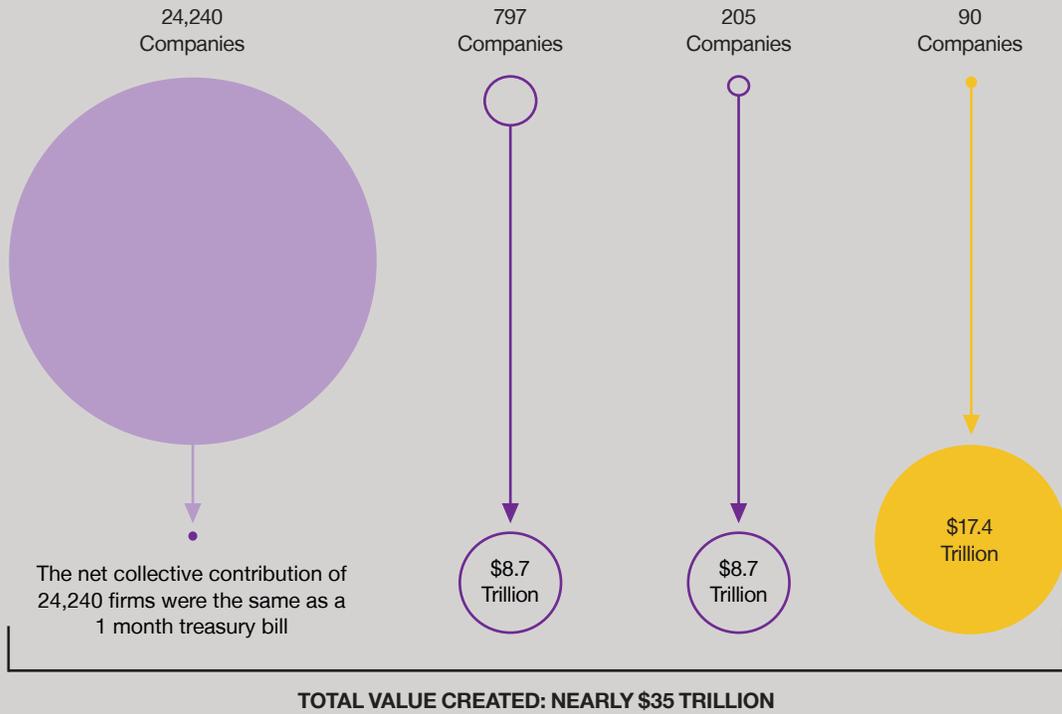
In Brief

Across the year net fund flows are marginally positive, with gross flows moving in both directions in the 20 billions. At strategy level, some of the highest net inflows came from intermediary clients who invest in a range of open and closed-ended vehicles (including investment trusts in the UK), and institutional clients investing in US equities, emerging markets equities, and multi asset.

Staff turnover across the firm and within our investment teams remains very low – averaging less than 5 per cent per annum over the past decade. Our partnership structure allows us to take a long-term view of how we manage our business and creates a supportive culture across our business that contributes to low staff turnover. When partners retire, this is announced many months in advance, allowing a smooth and stable transition within their respective teams, as has recently been the case within our Emerging Markets and Multi Asset investment teams.

Total net wealth created by all listed US common stocks 1926–2016

NUMBER OF COMPANIES

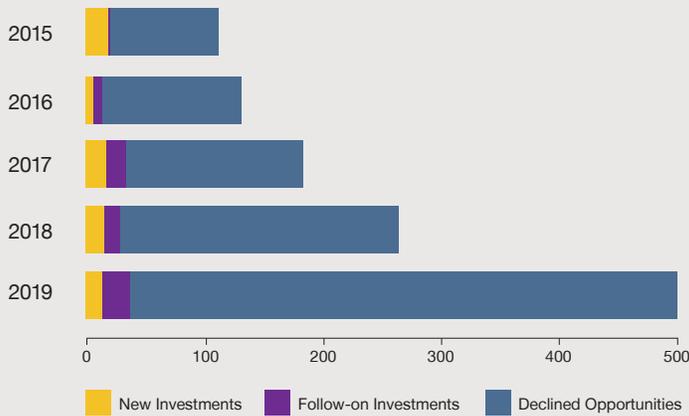


Stock market wealth creation is defined as an accumulation of value (inclusive of reinvested dividends) in excess of the value that would have been obtained had the invested capital earned one-month treasury bill interest rates.

Reading the data: The data includes all 25,967 CRSP common stocks (25,332 companies) from 1926 to 2016.

Source: Hendrik Bessembinder, Do Stocks Outperform Treasury Bills? (August 2017).

Remaining selective in our unlisted equities deal-flow



86 Unlisted investments made

60 Currently held unlisted investments

20 Investments now listed

Data as at 31 December 2019.
Graph above shows Baillie Gifford investments in unlisted companies.

Research

Imagine if the entire gain in the US stock market since 1926 was attributable to just 4 per cent of listed companies. And what if on looking closer, only 90 of those companies (out of over 25,000) created half of the said \$35 trillion wealth? That's the remarkable truth revealed by Professor Hendrik Bessembinder's research which has prompted us to re-engage with the question, how do we identify those few truly great companies that will make a difference for our clients?

We think engaging in fundamental research, studying companies on a case-by-case basis, is critical to finding companies with high growth potential. The same holds true for all the asset classes in which we invest. Our investors are encouraged to experiment, think diversely, and explore the world by talking to experts across a range of fields. They build meaningful relationships, both with companies and further afield. We digest information and take inspiration from, among others, a network of inquisitive researchers (independent external investigators who take a non-investment led approach to the questions we pose them), academia, writers and thought leaders. We currently collaborate with approximately 20 academic institutions on over 25 research projects. Some of these relationships span over a decade.

By being generalists, we can make connections between companies and trends that others might overlook. One such trend is that companies are choosing to stay private for longer, limiting the access for investors. This challenge is being addressed by our Unlisted Equities team, headed by Peter Singlehurst.

Encouraged by our clients, we launched our unlisted fund, Schiehallion (pronounced "Shee-hal-eon" and named after a Scottish mountain) in March 2019. The work we undertake in the private sphere is important for all our clients. This is because it gives us access to the next generation of public companies at the earliest opportunity, allowing us to build relationships and get under the skin of these businesses in the years ahead of an Initial Public Offering. This focus on young, exciting companies also helps us to see competitive threats arising to our large, public holdings ahead of time. As private companies tend to pick their shareholders, our reputation as a supportive and patient shareholder has been invaluable. The Unlisted Equities team reviewed 499 unquoted opportunities in 2019, but made only 13 new investments, some of which came through company referrals and other existing relationships.

Find out more



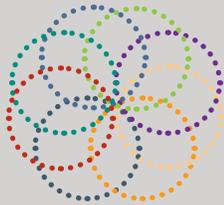
Learning From Academia



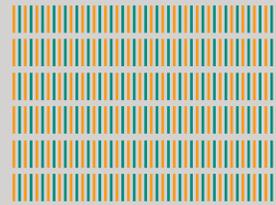
Information Overload

Digital versions available at bailliegifford.com/insights

20 Governance and Sustainability staff number



383
Governance and Sustainability engagements over 2019 with 281 companies



12,500
approx. resolutions voted in 2019

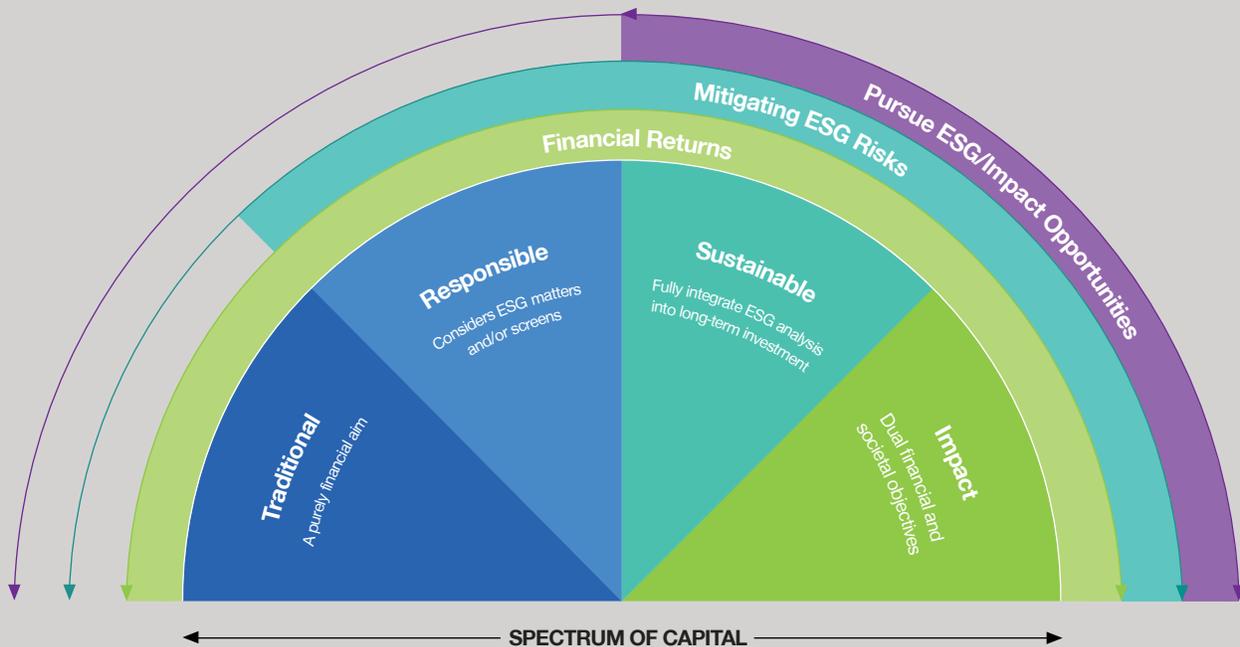
50%

How much we aim to reduce each employee's carbon footprint over the next five years



200%

Carbon offsetting of our annual absolute carbon footprint



All our strategies are classed as either 'Responsible', 'Sustainable' or 'Impact' on the above spectrum.

ESG

We take our role as responsible stewards of capital very seriously. Our long-term investment horizon means that anything that has the potential to impact on the growth of our holdings is factored into our investment research. This includes economic, social and governance (ESG) issues, which are an increasing area of focus for us.

All our investment staff are involved in our stewardship work. We believe that monitoring holdings, engaging with management and voting thoughtfully supports investment performance and is in the best interests of clients. The investors work closely with our Governance and Sustainability team, and all of those who undertake our investment graduate scheme will spend time in this team during their third year. The Governance and Sustainability team has grown from six people ten years ago to 20 members presently, reflecting the importance we give to these matters.

Our investment strategies take a range of approaches to governance and sustainability. All Baillie Gifford strategies are 'responsible', meaning that the company research undertaken will always consider the impact of ESG matters on the company. Our 'sustainable' strategies, including Global Stewardship and Responsible Global Equity Income, take it a step further; by mitigating ESG risks with exclusions and fully integrate ESG analysis into their long-term investment case. The final category, 'impact', covers strategies with both a financial and a social objective. Our Positive Change strategy is our inaugural impact strategy and has now reached its three-year track record.

Positive Change has led the way in considering how to measure and report on impact to meet its social objective and this continues to develop. For example, for their 2019 report, we engaged an auditor to provide a full assurance statement of the information contained within it. The strategy also published its first *Positive Conversations* report. This report provides an overview of how the team engaged with companies on ESG-related matters over the past year.

Beyond equities, we also invest in a range of other asset classes through our Multi Asset and Fixed Income teams. We believe governance and sustainability factors are applicable and important across all asset classes and therefore take these issues into account as part of the investment process, identifying and focusing on the risks specific to the potential investment being analysed and continuing to monitor these risks on an ongoing basis. This is particularly pertinent for our real asset class allocations (commodities, infrastructure and property) where longer-term governance and sustainability trends and factors can be particularly pertinent for long-term return expectations.

Find out more



Principles and
Guidelines

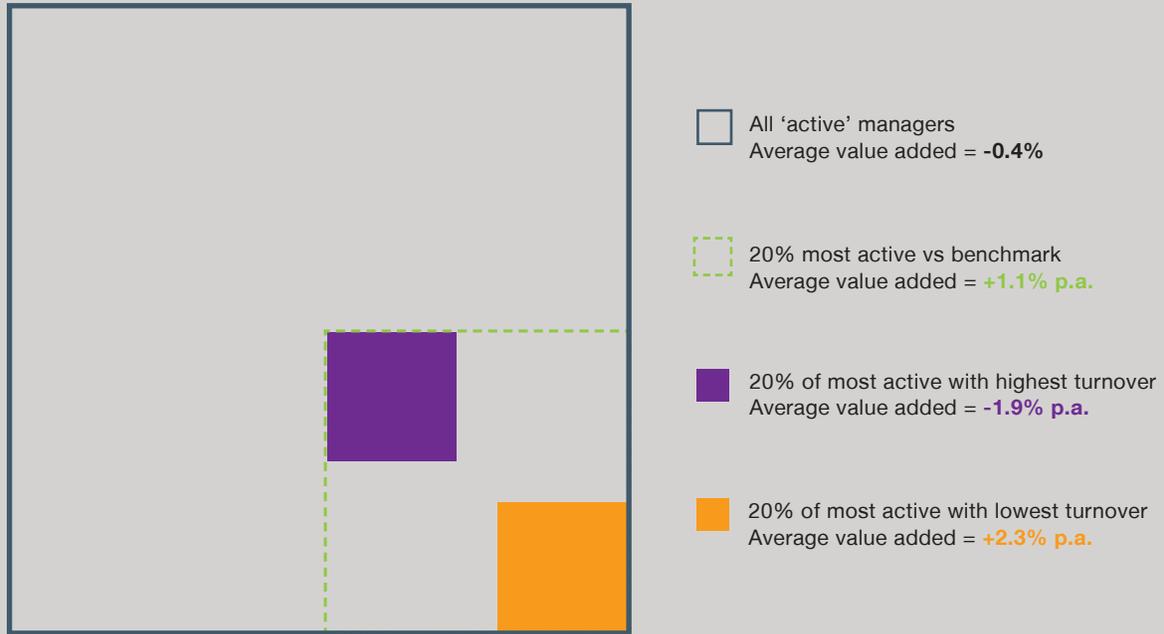


Positive Change Impact Report
and Positive Conversations



Our Stewardship
Principles

The importance of high active share and low turnover

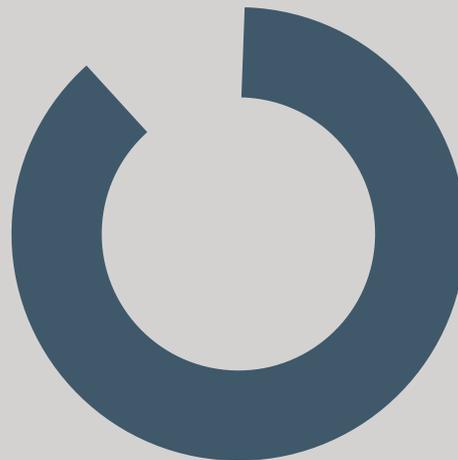


Source: All figures are from Cremers and Petajisto 2009 and Cremers and Pareek 2014.

Over
7 years
average holding period



88%
Active share



Source: Based on Baillie Gifford's Global Alpha strategy. We have chosen Global Alpha as it is representative of our larger global equities strategies.

Active Versus Actual Investors

When was the last time you considered what the term ‘active’ means? When we as a firm did this, we were disappointed by what we found across the industry. If being active is about delivering better returns for your clients (after fees) than investing passively by following the benchmark, only a select few active managers could claim to be doing so. That’s why we believe the active/passive debate is a misnomer. What we need to concentrate on is discerning what active management should be.

One of Baillie Gifford’s ‘shared beliefs’ is that we should be prepared to speak out for what we believe in. As something we feel incredibly strongly about, we launched our ‘actual investors’ campaign to describe more accurately the type of investing we do. As actual investors, we look to own companies rather than renting them and we are looking for the few that we believe will truly make a difference for our clients. As Professor Hendrik Bessembinder’s research suggests, only a very small subset

of companies can move the dial in terms of generating returns for clients. Growth, however doesn’t come in a straight line. Being patient with these exceptional businesses allows us to ride out the inevitable bumps that occur along the road in the pursuit of excess returns. We are continuing to work with Bessembinder to extend his work globally. If you haven’t spoken with us regarding this important research, we would encourage you to do so.

Stuart Dunbar, partner, opened the conversation at the end of 2018 with the publication of a manifesto – *Let’s Talk About Actual Investing* – which sparked debate in the financial press, including an article by *Citywire*, available on its website. Over the course of 2019, we launched a blog to help us share our views on the investment industry and the topics that matter to us as investment managers. Here you’ll find interesting comment from our thought leaders at Baillie Gifford and can sign up to future updates.

Find out more



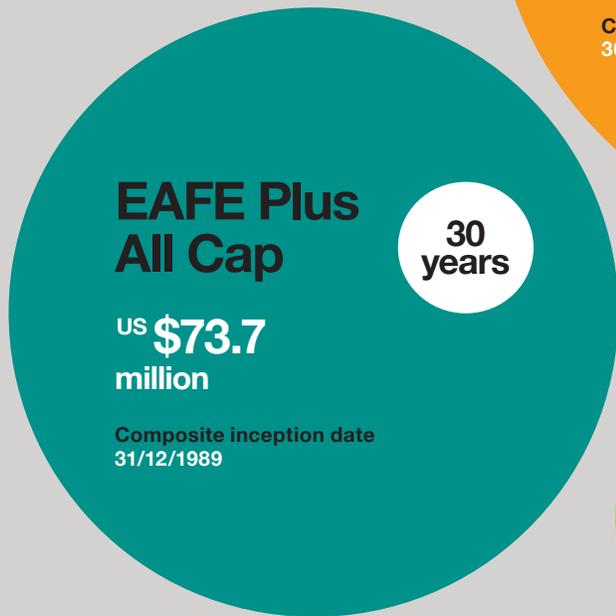
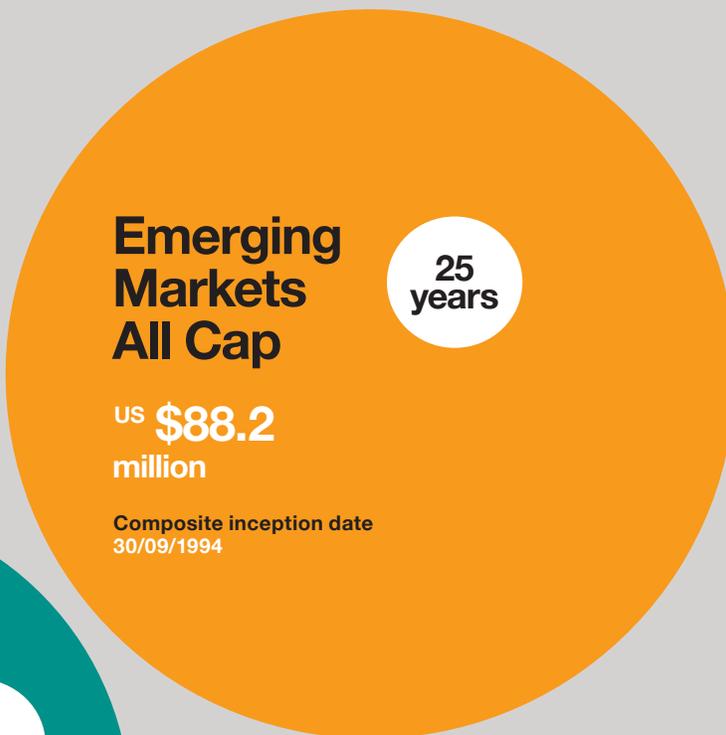
Actually Blog



Let’s Talk About Actual Investing



Today your investment would be worth:



International All Cap

Strategy Renaming

Then	ACWI Alpha	EAFE Alpha	ACWI ex US Focus	EAFE Plus Focus	EAFE Pure Focus
Now	International Alpha	International Growth	ACWI ex US All Cap	EAFE Plus All Cap	Developed EAFE All Cap

Past performance is not a guide to future returns.

Strategy Milestones

We listen very carefully to our clients, developing our business to meet their existing and future needs, whether that be in terms of the investment strategies we offer or the vehicle options we provide. Rather than just build portfolios for our clients, we strive to build stronger relationships with them, which is borne out by an average client relationship of 11 years in length.

A recent example of where we have launched a strategy as a direct result of a request we received from an existing client is our Responsible Global Equity Income strategy, which launched at the end of 2018. Elsewhere, we are looking closely at how we can do more for our clients in the income space, namely for defined-benefit pension schemes who increasingly require higher levels of cash flows to pay members their pensions. We believe our range of income strategies, such as Multi Asset Income, offer a resilient solution to these schemes by providing a sustainable income stream while preserving or growing investors' capital.

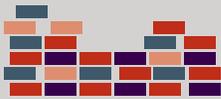
International equity strategies are approaching one-third of Baillie Gifford's total assets under management. During 2019, we completed a review of our line-up and as a result we renamed three of our strategies: ACWI Alpha became International Alpha, International Focus became International All Cap, and EAFE Alpha became International Growth. The new names did not reflect a change in direction for any of the strategies but were simply intended to make it clearer for clients what the focus was of the individual strategies.

At the same time, we reopened International Growth and Global Alpha to all clients and International Alpha

became available to separate account mandates. Capacity is considered on a pan-firm and individual strategy basis, with monitoring and oversight performed by our Trading and Business Risk departments. Stress testing is performed to assess the impact on strategies of significant inflow and outflow scenarios, with consideration given to the impact on the liquidity profile, stock ownership, investible universe and trading costs.

As you might expect of long-term investors, our investment strategies are set up to endure. Several of our existing strategies celebrated notable anniversaries last year including the Long Term Global Growth (LTGG) strategy which launched in 2004. While the shape of the portfolio may have changed markedly since (from Petrobras and Imperial Tobacco among the largest holdings at outset to Amazon and Illumina today) the investment approach has remained constant as a concentrated, best ideas global portfolio of true growth stocks. Other investment strategies celebrating anniversaries last year included International All Cap (30 years) and Emerging Markets (25 years). We continue to be excited about the future for these strategies. As the world fixates on negative short-term news flow, valuations across emerging markets seem to reflect a good deal of pessimism about the growth outlook. This is where our optimism and fundamental research serves us well, because it helps us to see beyond the current economic cycle and focus on some fantastic long-term growth opportunities which other investors may miss.

...our range of income strategies, such as Multi Asset Income, offer a resilient solution for schemes with income needs...



£36.1 billion | **US \$47.8 billion**

invested in Chinese equities as a firm

We invest in

106

Chinese companies



13

Chinese speaking investors out of 117



More than

50

investors cover China



China

The investment opportunity in China is immense: with a population of 1.4 billion and a growing middle-class driving consumption, it is already the world's largest market for various products and services. To give you an idea of the scale, Meituan Dianping, the Chinese online services platform, delivers 27 million orders per day; in comparison, the US food delivery platform, Grubhub delivers less than half a million per day. But it is not just the size of the opportunity that makes this region attractive to an active investment manager. Chinese equities are often poorly researched and little understood. This throws up lots of investment opportunities for those who are prepared to commit the time and effort necessary to gain a better understanding of Chinese companies. Since we first began investing in emerging markets in 1994, we have been gradually increasing the time our investors spend in the region. We launched our first China equities strategy in 2006, and invest approximately \$47.8 billion in Chinese equities across a range of strategies.

In 2019, we took our investment research in the area up a gear by establishing a permanent research base in Shanghai. The office will play a big part in deepening the already longstanding relationships with our existing Chinese holdings. This local expertise will be invaluable in helping us to better understand regional and cultural developments. We have appointed a new head of China, Amy Wang, and she has been joined by partner, John MacDougall, and two other analysts that have relocated from Edinburgh.

Find out more



Postcards from China



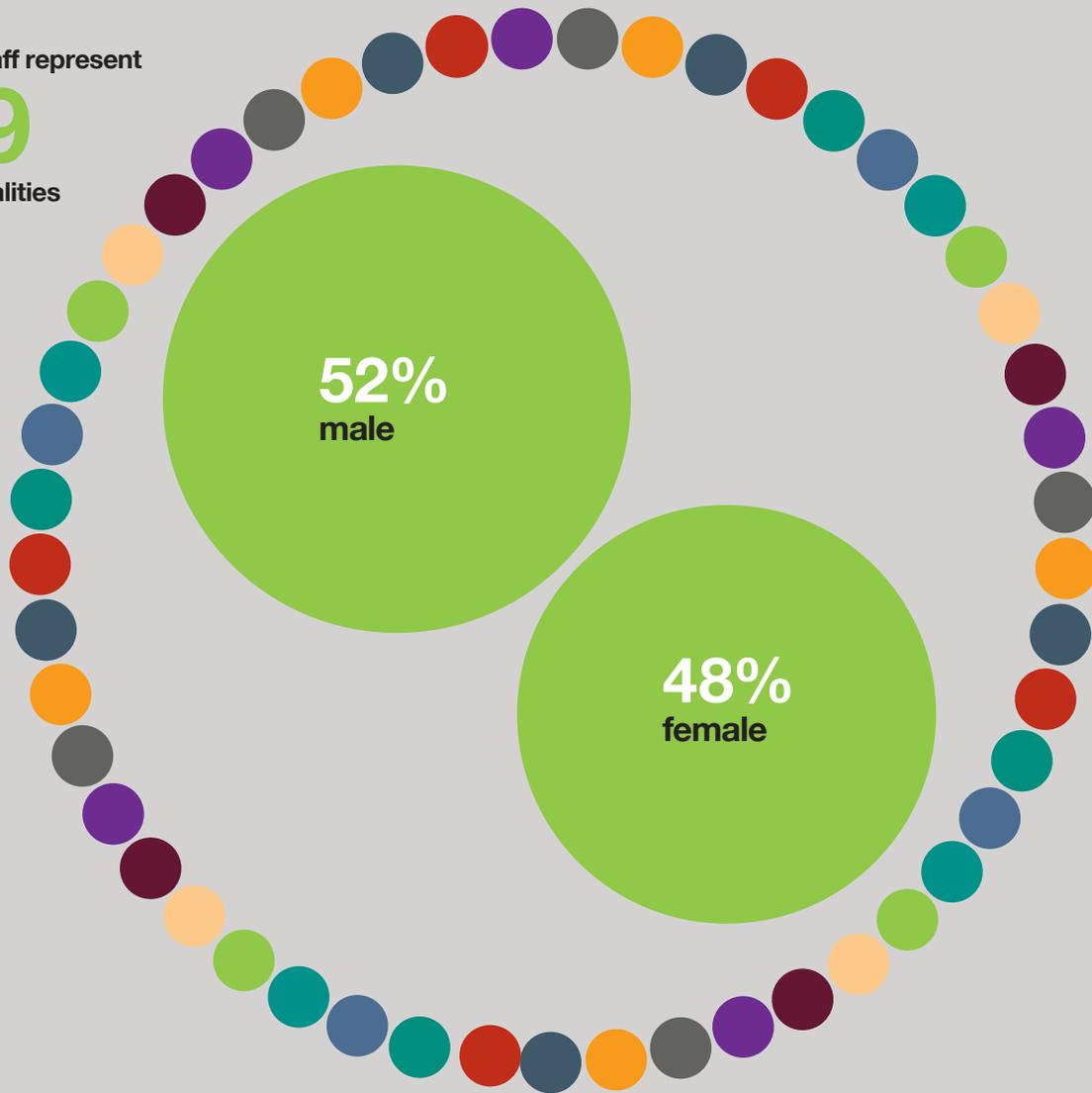
Changing China: the
A-Share Opportunity



China Crisis.
What Crisis?

Our staff represent

49
nationalities



Diversity and Inclusion

While our investment graduate programme has recruited from a wide range of disciplines and backgrounds for many years, we recognise that this alone is not enough. If we are to be successful investors, diversity – like investment research – needs to come from the bottom up and move beyond recruitment policies to better reflect the diverse nature of our global client base and holdings. We are looking at ways in which we can harness cognitive diversity, to benefit from the full wealth of ideas, knowledge and experience of all employees at Baillie Gifford, and support them through the various stages in their career. Efforts at improving the gender balance and diversity across the firm are ongoing. We now have 49 nationalities represented across the firm. The number of senior positions held by women also continues to increase, with an additional two women, Kate Fox and Helen Xiong, being promoted to the Baillie Gifford partnership in 2020.

A Diversity and Inclusion Group has been spearheading efforts on this front and since its launch in 2016 many staff have become involved in a range of employee-led networks. Some of the notable features in 2019 included launching a Multicultural Network, creating a modern apprenticeship programme and running menopause awareness sessions. We also introduced an equal parental leave policy, giving all parents the right to 52 weeks leave, regardless of gender or length of service.

Find out more



Diversity and Inclusion Website pages

Baillie Gifford's Shared Beliefs

We believe that:

Our active investment management will add material value for clients over the long run

Successful active investment management is not easy: it requires dedication, independent thought and a long-term perspective. Our whole firm should be built around this and we must remain resolutely investment-driven in our outlook.

We put our clients' interests ahead of our own

Our actions must be honourable and beneficial for our clients, for the companies we invest in and for society. We aim for excellence in all levels of client service and wish to be seen as a trusted long-term partner and adviser. As they are important to our clients' returns, we aim to keep costs low and transparent, including maintaining our fees at fair and reasonable levels.

We should be actively engaged shareholders of the companies in which we invest

Our equity investment process is founded on the long-term ownership of growing businesses. We want to help these companies fulfil their potential by encouraging them to invest in growth opportunities and to ignore the short-term pressures of the stock market. We take the responsibilities of ownership seriously, and will be active stewards of our clients' capital.

Our ownership structure is a key strength

Being independent, private and wholly owned by working partners allows us to focus on our clients and their investments. It helps our stability, motivation and culture and enables us to take a long-term view in all that we do, including investing, client relationships and staff development.

Our firm must be an engaging and progressive place to work

It is imperative that we attract and retain a diverse group of talented individuals. We need to create opportunity and challenge while providing support. We are committed to getting better at everything that we do and remaining relevant to our clients' needs as they evolve.

Our actions and behaviour should support society as a whole

We seek to set a positive example as an investor, as an employer and within our own communities. We aim to uphold and promote the highest standards of service and professional behaviours and to help enhance the reputation of the investment industry.

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CURIOUS ABOUT THE WORLD

bailliegifford.com/thinking

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