

# Fund Review

Baillie Gifford

Baillie Gifford American Fund

January 2023



For professional advisers only

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# Defaqto Fund Reviews

This document is designed to provide the reader with a quantitative overview of the fund reviewed. The review then goes on to examine information of a more qualitative nature, which has been obtained through an interview process with the fund manager/s.

The qualitative information covers specific areas including the fund manager’s philosophy, their people, and the processes they employ. Additional information is also provided on their research capability, the resources they have at their disposal and how they manage risk. All of this information goes towards creating this comprehensive Fund Review.

## Defaqto Ratings

### Ratings to help advisers and their clients make better informed decisions

The Defaqto experts have created a range of ratings to help advisers find the best product or proposition for their clients.



Show at a glance how a fund or fund family performs in comparison to the rest of the market.



Demonstrate the comprehensiveness of products across a range of areas, from pensions to DFMs.



An overall assessment of service – by advisers for advisers.

### Suitability ratings to support compliant advice

Defaqto have created a set of ten Risk Profiles, and four Income Risk Profiles with corresponding ratings to which funds are mapped using a robust process. This helps advisers to evidence suitability for their clients in both the accumulation and decumulation phase:



# Fund Review



Baillie Gifford  
American Fund  
Patrick Norwood, CFA

## Executive summary



Baillie Gifford have a partnership structure.

This fund has been running since 1997.

The team behind the fund consists of four Investment Managers and four Analysts and is headed by Tom Slater.

Baillie Gifford's investment philosophy and process are built around the asymmetry of returns - the fact that a small number of companies drive all market returns over the long term.

Baillie Gifford aim to deliver 'alpha' for their clients by identifying these exceptional growth businesses and owning them for long enough that the advantages of their business models and strength of their business cultures become the

dominant drivers of their stock prices.

The portfolio is relatively concentrated, its active share is high and its turnover is currently 10%.

Charges for the fund are competitive compared to those of peers.

## Investment objective

The fund aims to outperform (after deduction of costs) the S&P 500 Index, as stated in Sterling, by at least 1.5% per annum over rolling five-year periods. There is no guarantee that this objective will be achieved over any time period and actual investment returns may differ from this objective, particularly over shorter time periods. The manager believes this is an appropriate benchmark given the investment policy of the fund and the approach taken by the manager when investing.

## About Baillie Gifford

Baillie Gifford was established in 1908 and is structured as a partnership, with 51 partners currently. Baillie Gifford believe that this partnership structure promotes a long-term approach, as there are no outside shareholders with potentially different priorities, as well as enabling a strong client focus. Baillie Gifford also feel their structure is a significant factor in attracting and retaining investment talent. The latter is borne out with low employee turnover figures of 3.1% over 2021.

Overall the firm has 1,630 staff, of which 140 are fund managers and analysts and about £223bn in AUM (as at 31 December 2023). Their main office is in Edinburgh and this is where all investment decision-making takes place.

Baillie Gifford generally take a long-term and active approach across asset classes.

## Quantitative summary

The quantitative data that appears over the following pages has been generated by Defaqto using a combination of third-party and proprietary data sources and data provided by the asset manager. The information reflects the availability of data as at the dates highlighted.

All information reflects the investment solution specified in the information and classification table below.

## Fund information and classification

Launch date	31 July 1997
Fund Manager	Tom Slater, Gary Robinson, Kirsty Gibson, Dave Bujnowski
Domicile	GBR
Assets	Active
Approach	Return Focused
Type	OEIC

ISIN <sup>1</sup>	GB0006061963
IA sector	North America
Morningstar category <sup>2</sup>	US Large-Cap Growth Equity
Defaqto Diamond Rating Type	US Large Cap Growth Equity
Diamond Rating	-

<sup>1</sup>This is the shareclass used for the quantitative data and analysis over the following pages

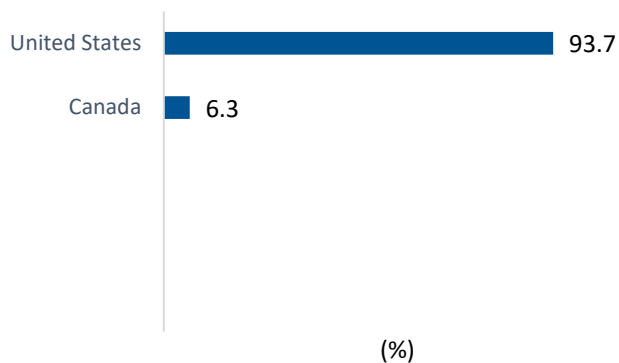
<sup>2</sup>The Morningstar Category is used in all comparative analysis, over the following pages.

## Fund size and fees

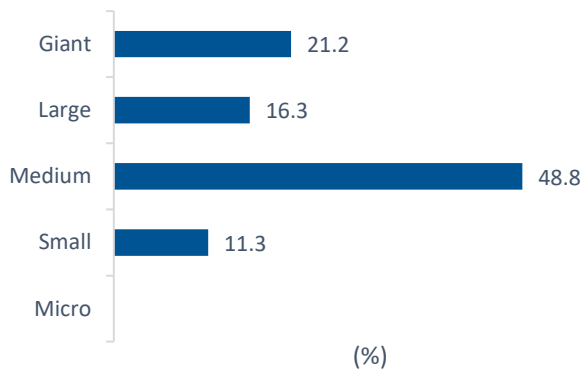
AUM	£2570M
Date	30 December 2022
OCF Estimated	0.51%
OCF Actual	0.51%
Transaction Fee Actual	0.06%
Performance Fee (Yes/No)	No
Performance Fee Actual	n/a

## Geographical exposure and market capitalisation/credit maturity

Regional Equity Allocation



Market Capitalisation Equity Allocation



Source: Morningstar, 30/12/2022

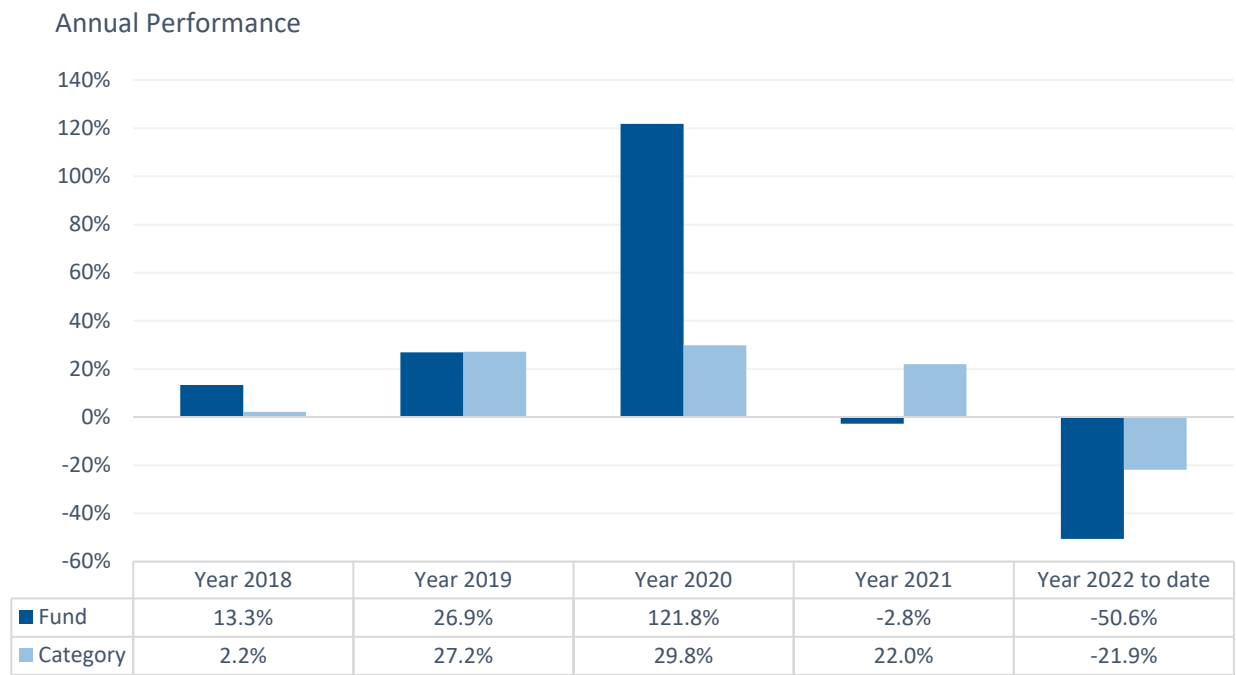
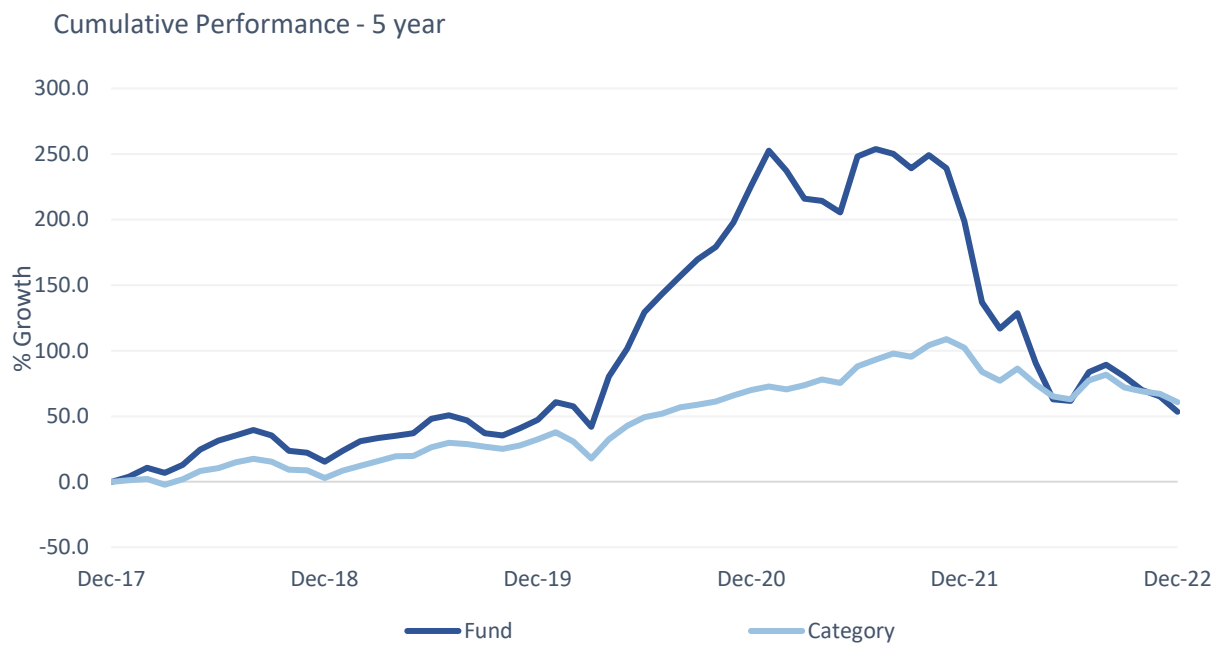
## Top 10 holdings

Total Number of Equity Holdings	45
Total Number of Bond Holdings	-
Assets in Top 10 Holdings (%)	51%

Name	Country	% of assets
Moderna Inc	United States	7.8
The Trade Desk Inc Class A	United States	6.8
Tesla Inc	United States	6.4
Shopify Inc Registered Shs -A- Subord Vtg	Canada	6.2
Amazon.com Inc	United States	5.0
Abiomed Inc	United States	4.4
CoStar Group Inc	United States	4.3
Anylam Pharmaceuticals Inc	United States	3.7
Netflix Inc	United States	3.6
NVIDIA Corp	United States	3.4

Source: Morningstar, 24/01/2023

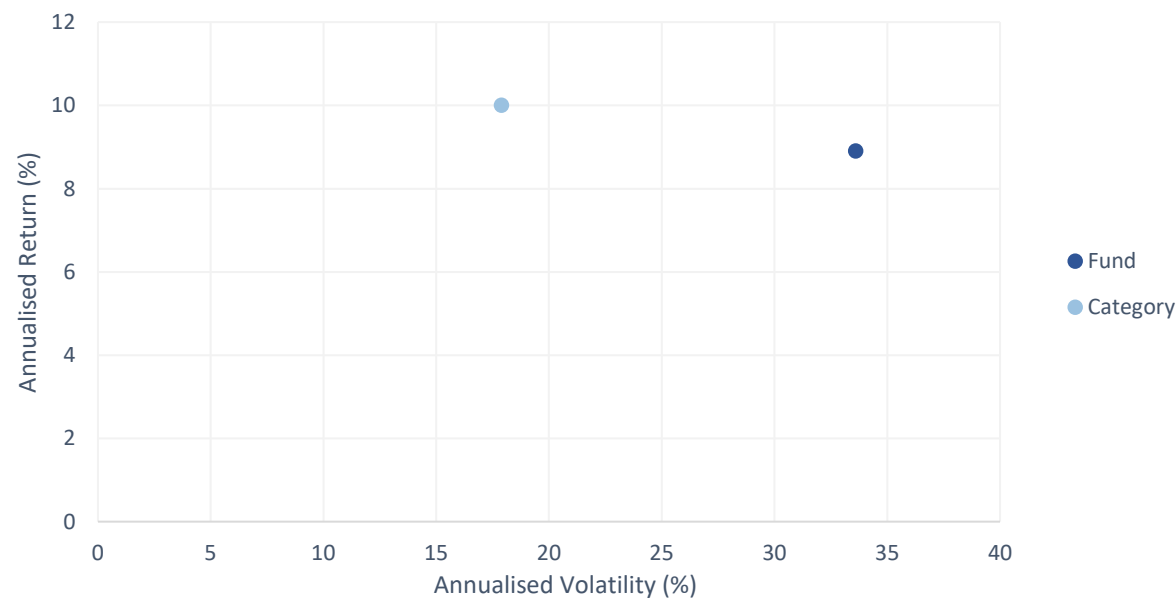
# Performance



Source: Morningstar, 30/12/2022

## Risk

Risk vs Return- 5 year



Source: Morningstar, 30/12/2022

## Drawdown

Last 60 Months	
Max Drawdown	-61.8%
Positive Months	33
Negative Months	27
Worst Month	-27.9%

Source: Morningstar, 30/12/2022

## Liquidity

Days to liquidate holdings	% of portfolio
1 - 7 days	95.8
8 - 30 days	4.2
31 - 180 days	-
181 - 365 days	-
365+ days	-

Source: Baillie Gifford, July 2022. The data provided is for illustrative purposes only and assumes normal market conditions using 20% average daily volumes. It reflects a scenario where the funds are liquidated in full, and will change depending on market conditions and the makeup of the portfolio at any point in time.



## Philosophy

Baillie Gifford believe that their philosophy has two unique aspects:

### **Harnessing asymmetry:**

Baillie Gifford's investment philosophy and process are built around the asymmetry of returns. Research quoted by Baillie Gifford shows that, over the past 90 years, just 90 companies out of nearly 26,000 produced half of the \$35 trillion net wealth created by the US stock market above treasury bills ie a small number of exceptional growth companies drive all market returns over the long term.

Baillie Gifford aim to deliver 'outstanding' investment performance for their clients by identifying these exceptional American growth businesses and owning them for long enough that the advantages of their business models and strength of their business cultures become the dominant drivers of their stock prices.

Companies that deliver above market growth (revenue and cash flows) typically outperform, but it requires more patience than the vast majority of market participants possess to take advantage of this.

To Baillie Gifford, an exceptional growth business is a company with a special culture that is addressing a large market opportunity while possessing an edge that will allow it to deliver high future returns.

The potential for uncapped returns is the single most exciting aspect of investing in individual companies. Baillie Gifford believe that if they are broadly correct about the opportunity, they can make a multiple of the initial investment for their clients. They focus on what it looks like if things go well for an investment. They still think critically about stocks but prioritise the upside potential, which they believe is very different to most other financial analysts.

Baillie Gifford run concentrated portfolios as they don't want to dilute the impact of such companies through over-diversification.

### **Alternative sources of insight:**

Baillie Gifford believe in thinking differently to most of the market. They de-emphasise the importance placed on routine information in the belief that it is mostly noise and is over-analysed. Instead, they seek alternative sources of insight. They recruit investment analysts onto their graduate program with diverse educational qualifications and leverage the global perspective of the investment research conducted by their Investment Department of over 100, from whom they seek regular debate and challenge to ideas. They are fostering strong links with academia and aim for long-lasting collaborations with academics as well as companies and industry specialists. Additionally they hire 'inquisitive' researchers, generally former journalists, to delve into the culture of companies they own or are interested in.

## People

The team behind this fund consists of:

Tom Slater, Investment Manager and Head of Team, joined industry 2000, joined Baillie Gifford 2000

Gary Robinson, Investment Manager, joined industry 2003, joined Baillie Gifford 2003

Kirsty Gibson, Investment Manager, joined industry 2012, joined Baillie Gifford 2012

Dave Bujnowski, Investment Manager, joined industry 1996, joined Baillie Gifford 2018

Sacha Meyers, Analyst, joined industry 2014, joined Baillie Gifford 2015

Saad Malik, Analyst, joined industry 2016, joined Baillie Gifford 2016

Rue Veja Chaladauskaite, Analyst, joined industry 2020, joined Baillie Gifford 2020

Laura Gonzalez-Salmeron, Analyst, joined industry 2021, joined Baillie Gifford 2021

See next page for full biographies of the Investment Managers. All team members are generalists (as opposed to having their own sector).

Baillie Gifford have a team-based approach to managing portfolios that runs parallel to (but separate from) the research process. The full team has input into the portfolio construction process through portfolio review meetings. Investment decisions are taken by the team's fund managers at implementation meetings and discussions.

Analysts at Baillie Gifford outside of the US team that do work on US stocks are an additional source of new ideas.



**Tom Slater**

**Partner**

**Investment Manager**

Tom is Head of the US Equities Team and is a decision maker for the Long Term Global Growth strategy. He joined Baillie Gifford in 2000 and became a Partner of the firm in 2012. After serving as Deputy Manager for five years, Tom was appointed Joint Manager of Scottish Mortgage Investment Trust in 2015. During his time at Baillie Gifford he has also worked in the Developed Asia and UK Equity teams. Tom's investment interest is focused on high growth companies both in listed equity markets and as an investor in private companies. He graduated BSc in Computer Science with Mathematics from the University of Edinburgh in 2000.



**Gary Robinson**

**Partner**

**Investment Manager**

Gary is a Partner and Investment Manager in the US Equities Team. He graduated MBiochem in Biochemistry from the University of Oxford in 2003 and joined Baillie Gifford the same year. He spent time working on our Japanese, UK and European Equity teams before moving to the US Equities Team in 2008. Gary is a generalist investor but retains a special interest in the healthcare sector dating back to his undergraduate degree. Gary is also a member of the Global Stewardship Portfolio Construction Group (PCG).



**Kirsty Gibson**

**Investment Manager**

Kirsty is an Investment Manager in the US Equities Team. Kirsty joined Baillie Gifford in 2012 and began her career in the US Equities Team, moving on to spend several years in small and large cap global equities departments, before returning to the US Equities Team. She graduated MA (Hons) in Economics in 2011 and MSc in Carbon Management in 2012, both from the University of Edinburgh.



**Dave Bujnowski**

**Partner**

**Investment Manager**

Dave joined Baillie Gifford in 2018 and is in the US Equities Team. Dave's investment interest is focused on markets and businesses in which a highly dynamic societal change or business model shift affects potential future cash flow in a monumental and underappreciated manner. Prior to joining Baillie Gifford, he co-founded Coburn Ventures in 2005, a consulting and investment company that studies monumental change in business, markets and society to better understand the powerful forces that shape investment opportunities. In his 13 years at Coburn Ventures, Dave was a Partner, primary client-facing consultant, research analyst and portfolio manager of a long-short, market neutral hedge fund. He started his career in 1996, joining Warburg Dillon Read's equity research group as an associate semiconductor analyst before joining UBS's Global Tech Strategy Team. Dave graduated from Boston College in 1993, where he majored in Finance and Philosophy.

## Process

Baillie Gifford look at companies with market capitalisations of at least \$1.5bn. There are around 1,700 companies which meet this threshold.

Analysis by Baillie Gifford of returns from US stocks over the past 30 years shows that in any five year period about 20% of stocks go up by at least 2.5 times, therefore around 340 companies within the 1,700. Within this 340 or so stocks there is an even smaller subset which meets Baillie Gifford's growth, culture and competitive advantage requirements. A qualitative rather than quantitative approach is used to reduce the initial universe and try and identify the 'exceptional growth' companies described in the Philosophy section.

Baillie Gifford de-emphasise easily available routine information and instead seek out different sources of information. They frame their research using the following questions:

Q1. What might the world look like if this company is successful?

Q2. What about the company's culture increases the likelihood that it will achieve long-term success?

Q3. What are the enduring sources of edge?

Q4. What is exciting about the market opportunity?

Q5. What are the important forward-looking financial characteristics? Are the long-run incremental returns attractive?

Q6. How might they make a 2.5x return over the next five

years? How likely is this?

Q7. Is there potential for this stock to be a real outlier?

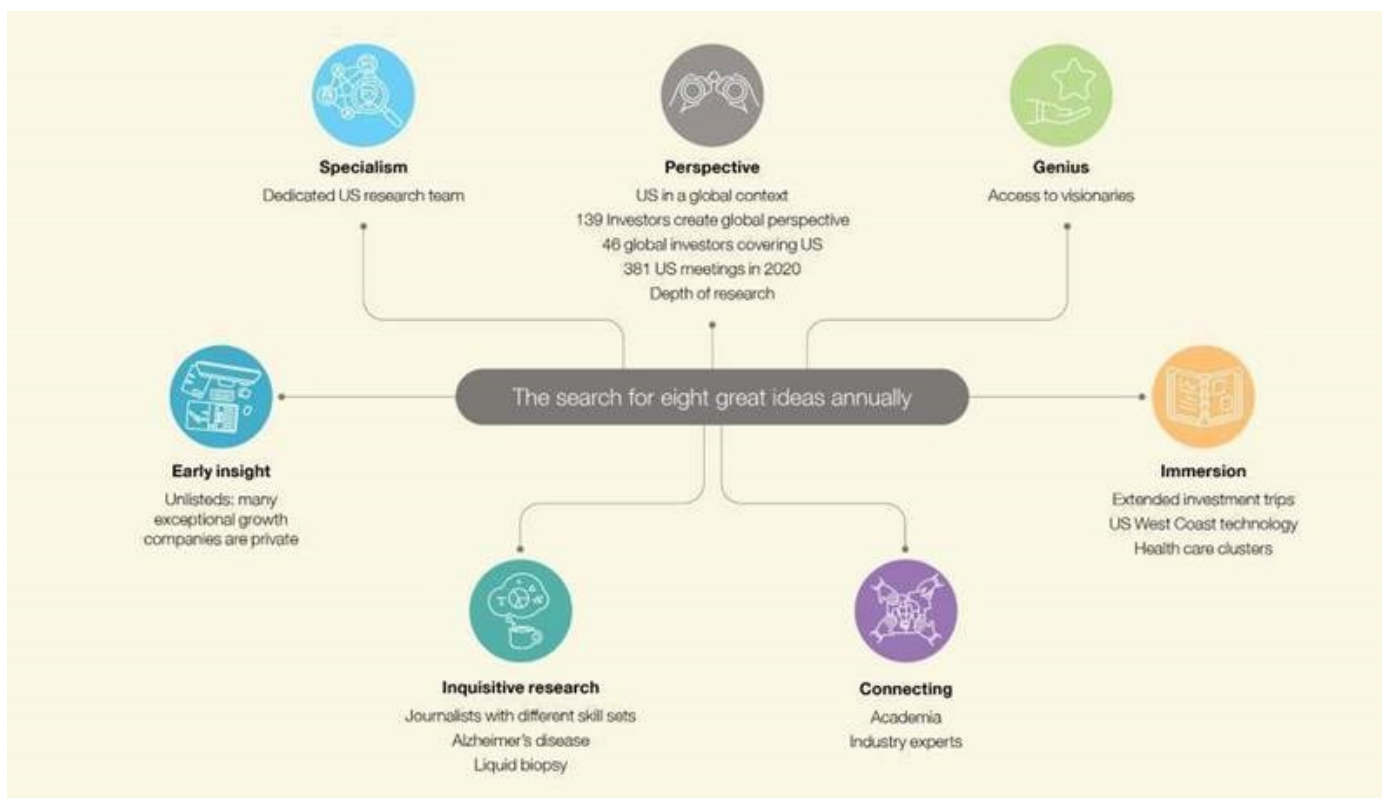
Q8. What should they (Baillie Gifford) do next?

When constructing and maintaining the portfolio, Baillie Gifford's aim is to take advantage of the asymmetry of return described in the Philosophy section. Holding sizes reflect the potential upside for an investment and the likelihood of it being realised. Investment opportunities are assessed over periods of five or more years. Annual portfolio turnover is currently 10%.

The portfolio will generally contain between 30 and 50 securities.

Baillie Gifford are wary of prematurely reducing holdings in stocks that are doing well and they try to consider price moves in the context of the evolving growth opportunity.

Baillie Gifford consider selling stocks only when the fundamental outlook has changed or they can no longer articulate how their view differs from that implied by the market price. Portfolio discussion meetings are used to discuss holdings in this context and decide if further research is required before taking action.



## Risk management

Baillie Gifford believe that permanent loss of capital is the most important risk to any portfolio, over and above model-based risk measures and historic share price behavior. In particular, they don't believe that tracking error captures meaningful investment risks, since benchmarks are not risk-free.

Baillie Gifford consider the following areas of risk:

*Fundamental risk* - their first line of defence is through detailed stock analysis, with new ideas subject to thorough review by the US team. The investment case for all holdings is constantly re-examined, with input also from other research teams across Baillie Gifford.

*Portfolio risk* - Baillie Gifford seek to ensure that portfolios are sufficiently diversified and managed in accordance with guidelines, which are formally reviewed on a regular basis.

These are: maximum stock holding of 8% at time of purchase and maximum 10% absolute holding, minimum company market capitalisation of \$1.5bn at time of purchase and minimum number of sectors of 5.

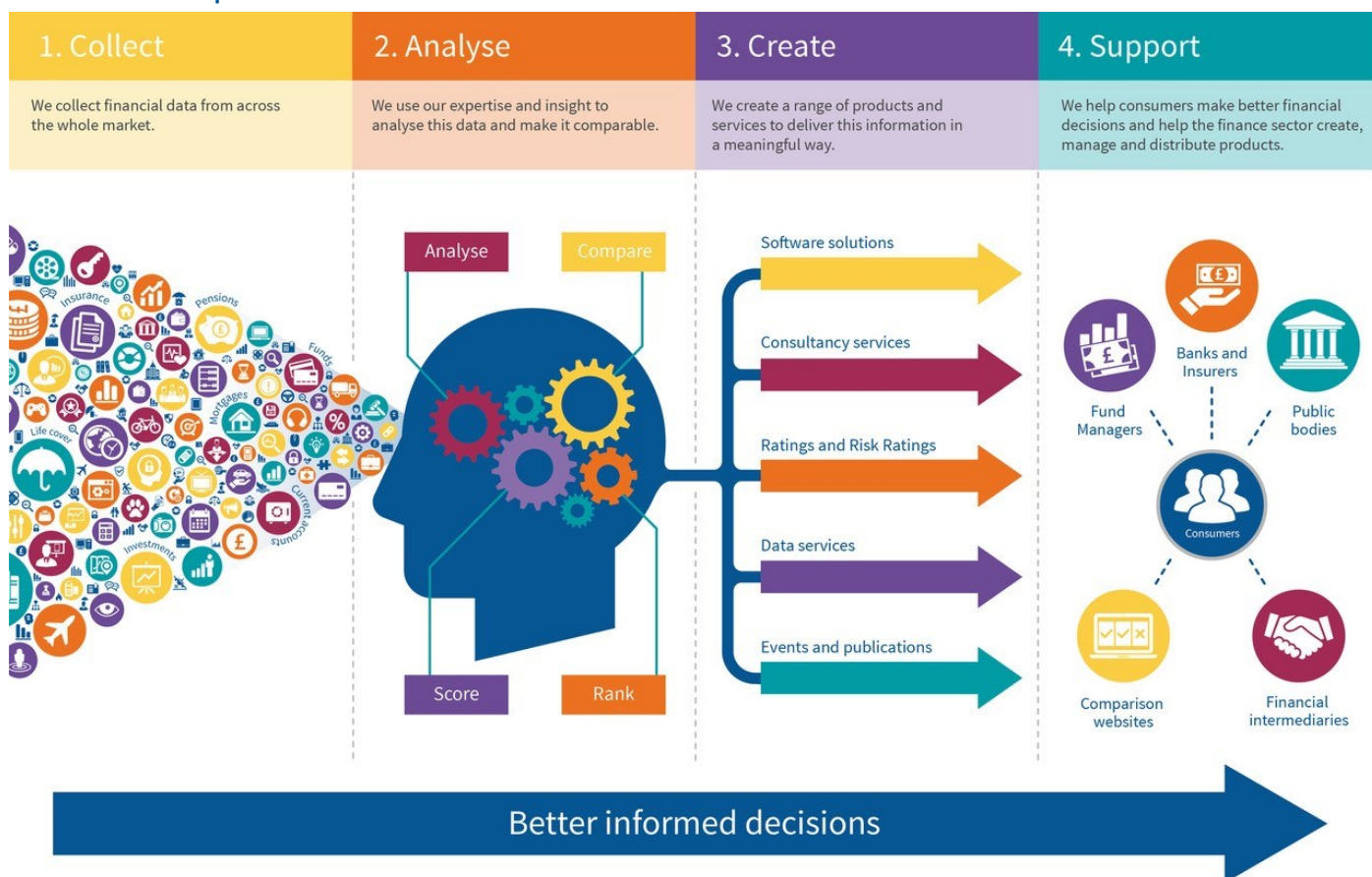
The overall portfolio context is taken into account by the

investment managers when considering any buy or sell ideas.

*Independent oversight* - Baillie Gifford have an independent Investment Risk, Analytics and Research Team, which use various tools to carry out reviews and analysis of portfolio risk on a regular basis. The team reports formally every quarter to the investment managers, Client Service Team and Baillie Gifford's Investment Risk Committee. Their work includes analysis of portfolio construction, investment decision-making and delivered performance. The team make use of third party systems, including risk models provided by SunGard APT and Style Research, while being aware of their limitations. Further analysis, such as looking at thematic exposures within portfolios, is also carried out on a regular basis.



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If you would like more information, please contact [sales@defaqto.com](mailto:sales@defaqto.com) or call us on 0808 1000 804.

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