

Fund Review

Baillie Gifford

Managed 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
Managed Fund
Patrick Norwood, CFA

Executive summary



The Managed Fund has been running since 1987 and has been managed with the same investment philosophy and process throughout this time. Its key features and differentiators are:

The fund invests across equities, bonds and cash, with typically 75% in equities, since Baillie Gifford believe these will be the key driver of returns over the long term

The fund consists of 6 different components - UK equities, Developed Asian equities, European equities, US equities, Emerging Market equities and fixed income, which includes the use of simple derivatives

Each component is the responsibility of an individual manager, who constructs a portfolio of their best ideas

Oversight of the overall portfolio is provided by the Policy Setting Group

The equity parts of the portfolio follow a bottom-up, stock-

picking process and have a growth bias

Governance and sustainability factors are taken into account in the stock selection process

The fund has outperformed the Morningstar category average and IA Mixed Investment 40%-85% Shares sector over the long term

Charges for the fund are competitive compared to those of peers

Baillie Gifford have a partnership structure

Investment objective

The objective is to achieve capital growth over rolling five-year periods. The managers believe an appropriate comparison for this Fund is the Investment Association Mixed Investment 40-85% Shares sector median 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	01 April 1987
Fund Manager	Iain McCombie & Steven Hay
Domicile	GBR
Assets	Active
Approach	Return Focused
Type	OEIC

ISIN ¹	GB0006010168
IA sector	Mixed Investment 40-85%
Morningstar category ²	GBP Allocation 60-80% Equi-
Defaqto Diamond Rating Type	Multi-Asset Return Focused
Diamond Rating	-

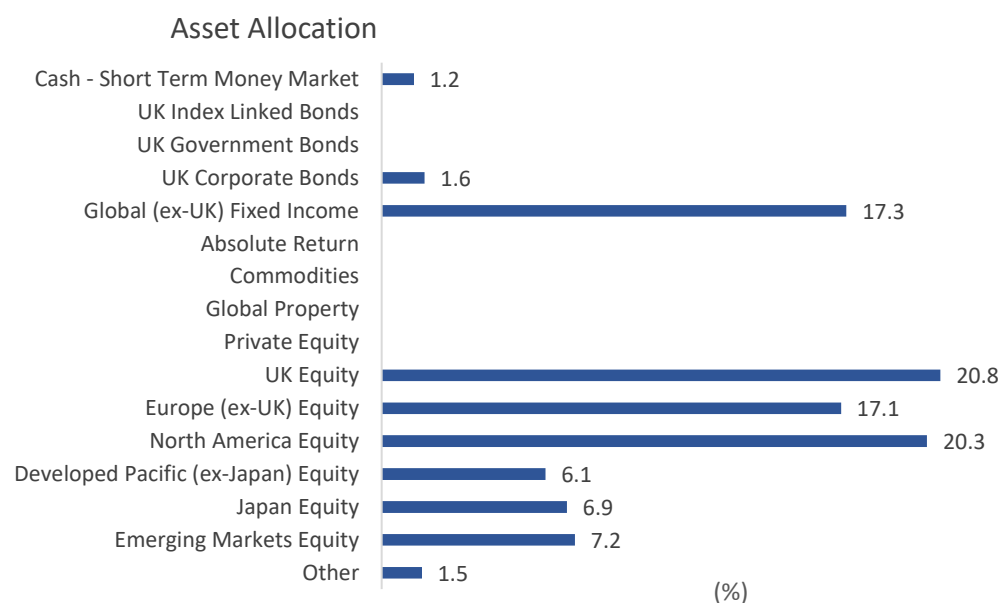
¹This is the shareclass used for the quantitative data and analysis over the following pages

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

Fund size and fees

AUM	£6138M
Date	30 December 2022
OCF Estimated	0.42%
OCF Actual	0.42%
Transaction Fee Actual	0.16%
Performance Fee (Yes/No)	No
Performance Fee Actual	n/a

Asset allocation



Source: Morningstar, 30/12/2022

Note

This asset allocation chart is drawn using the 16 asset classes (including 'other') that we use in Defaqto Engage.

This may differ slightly from the asset allocation described by the asset manager, due to various asset class roll-up and mapping variances.

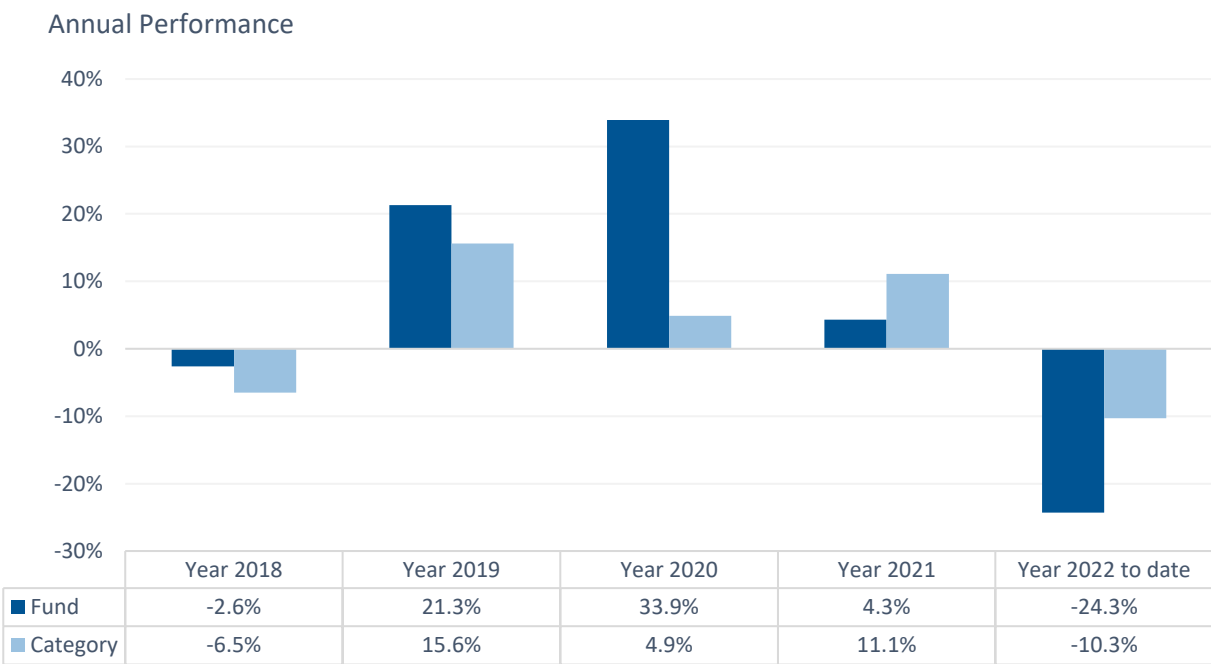
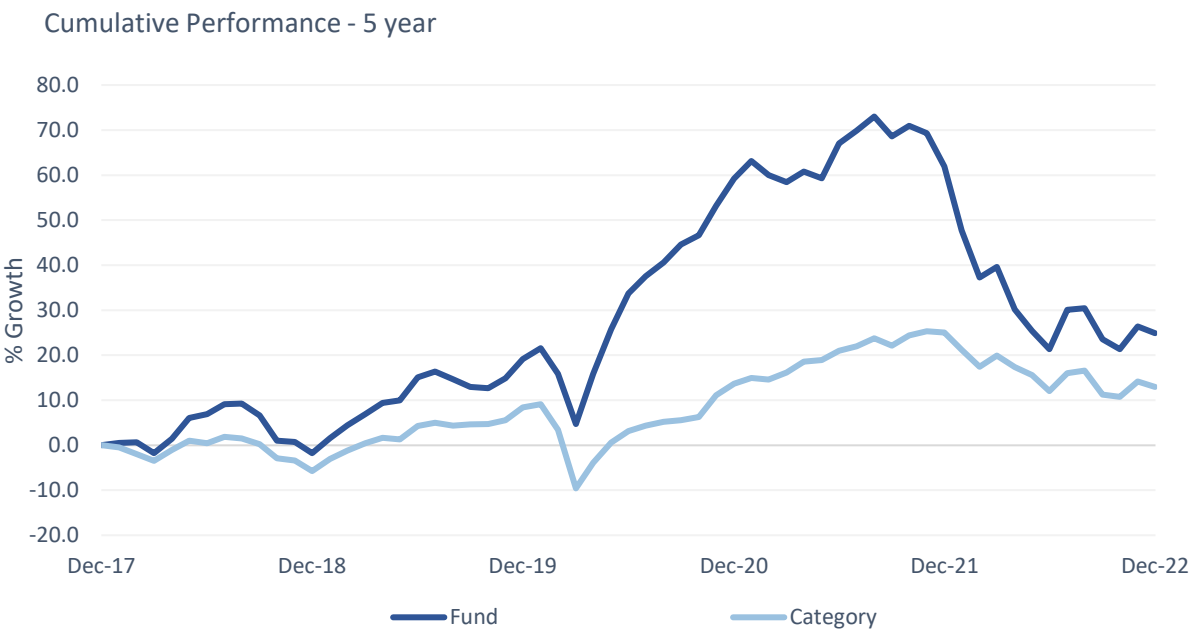
Top 10 holdings

Total Number of Equity Holdings	209
Total Number of Bond Holdings	138
Assets in Top 10 Holdings (%)	13%

Name	Country	% of assets
United States Treasury Notes 2%	United States	2.2
Moderna Inc	United States	1.4
The Trade Desk Inc Class A	United States	1.3
Tesla Inc	United States	1.2
Prosus NV Ordinary Shares - Class N	Netherlands	1.2
Secretaria Tesouro Nacional 10%	Brazil	1.1
AstraZeneca PLC	United Kingdom	1.1
Shopify Inc Registered Shs -A- Subord Vtg	Canada	1.1
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	1.1
Rio Tinto PLC Registered Shares	United Kingdom	1.1

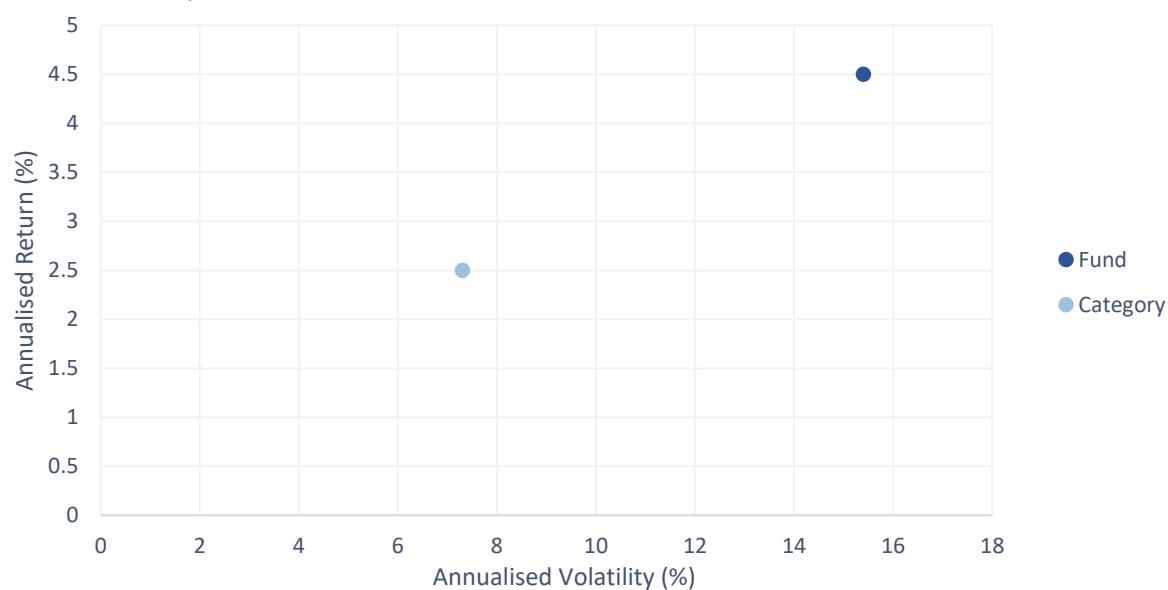
Source: Morningstar, 25/01/2023

Performance



Risk

Risk vs Return- 5 year



Source: Morningstar, 30/12/2022

Drawdown

Last 60 Months	
Max Drawdown	-33.8%
Positive Months	33
Negative Months	27
Worst Month	-12.1%

Source: Morningstar, 30/12/2022

Liquidity

Days to liquidate holdings	% of portfolio
1 - 7 days	97.8
8 - 30 days	27.0
31 - 180 days	2.4
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

The overall investment philosophy is to add value through long-term active management.

For the equity part of the fund, the philosophy is:

Long-term investment horizon - Baillie Gifford's equity analysis focuses on the long-term opportunities of the businesses under consideration and their average holding period is 5 years

Active approach - Baillie Gifford aim to express 'real investment conviction', focusing on individual ideas through bottom-up stock selection, resulting in a portfolio that is significantly different from the benchmark with a high active share

Growth style - Baillie Gifford believe that, in the long run, share prices will follow fundamentals, therefore those companies that can sustainably grow their business, significantly increasing their earnings and cash flow over a long-term time frame, will ultimately be the best rewarded in share price terms

Baillie Gifford's goal with the fixed income portion of the fund is to construct a best-ideas global bond portfolio which delivers returns while providing balance versus equities.

For government bonds and currencies, their focus is on identifying the likely structural path for each economy in their investment universe and the risks surrounding that central outlook. Global macroeconomic analysis provides a framework to enhance country research.

Within corporate bonds, a clear sense of what they are looking for in an investment allows them to identify the most promising subset of investment ideas. Baillie Gifford believe that, among high quality, typically investment grade rated issuers, those bonds that have a relatively high yield versus peers are disproportionately likely to deliver a return that is different to the benchmark. Their initial screening therefore focuses on these bonds. At the lower end of the credit quality spectrum the risk of default and permanent loss of capital is far higher. To narrow the field, Baillie Gifford's first step is focused on identifying issuers with resilient fundamental characteristics.

Baillie Gifford also believe that there is a strong alignment between good governance and sustainability practices and achieving, over the long run, the best investment returns in both equities and bonds. They are cognisant of the imperfect nature of the companies in which they invest, as well as the fact that actual investing requires patience and a constructive approach to help businesses become better from a governance and sustainability perspective. The focus of the Managed Fund is therefore on engagement rather than exclusion.

ESG considerations are an important part of Baillie Gifford's role of being responsible stewards of their clients' capital. These considerations have long been embedded into their research and decision-making, their due diligence and their active voting and engagement within their underlying investments across all of the portfolios which they manage.

People

The Baillie Gifford Managed Fund is a portfolio of best ideas from the firm's regional equity and fixed income teams. The individuals named below have responsibility for their respective region/asset class:

Iain McCombie - UK Equities

Andrew Stobart - Emerging Market Equities

Stephen Paice - European Equities

Iain Campbell - Developed Asian Equities

Kirsty Gibson - North American Equities

Steven Hay - Rates and Currencies

Philip Annen - Rates and Currencies

Torcail Stewart - Credit

Iain McCombie and Steven Hay are the named managers for the fund.

There is a Policy Setting Group, comprising a group of senior portfolio managers and members of the Clients Department,

who set the asset allocation and provide oversight of the portfolio.

Baillie Gifford has an ESG team of 32 members and each investment team has a dedicated ESG analyst assigned to it to support the investors in research, engagement and voting. In terms of governance, Baillie Gifford's key considerations include treatment and protection of minority shareholders, alignment of interests and board composition and effectiveness; while for sustainability they include resource use and efficiency, social factors and environmental factors.

People

The below managers are responsible for finding the best ideas in each of their respective areas, drawing on the knowledge and perspective of their immediate teams as well as our entire investment department.

The Regional Equity Managers



Iain McCombie, UK



Iain is the co-lead Manager on our flagship Managed Fund, where he has been involved since 2000. He is the lead Manager of our UK Core Strategy and became a Partner of the firm in 2005. Since joining Baillie Gifford in 1994, Iain has also spent time in the US Equities Team. His knowledge and experience as a stock picker is a valuable input into our Global Stewardship equity Strategy. Iain graduated MA in Accountancy from the University of Aberdeen and subsequently qualified as a Chartered Accountant.



Andrew Stobart, Emerging Markets



Andrew Stobart has been an Investment Manager in the Emerging Markets Equities Team since 2007 and has been involved in running the Emerging Markets portion of the Managed Fund since 2012. He also sits on the Emerging Markets All Cap and International Alpha Portfolio Construction Groups. Since joining Baillie Gifford in 1991, Andrew has worked in the UK, Japanese and US Equities Teams. Prior to joining Baillie Gifford, Andrew spent three years working in Investment Banking in London. Andrew graduated MA in Economics from the University of Cambridge in 1987.



Stephen Paice, Europe

Stephen is Head of the European Equities Team and has been involved in running the European portion of the Managed Fund since 2019. He is also a member of the Pan-European Portfolio Construction Group. Stephen joined Baillie Gifford in 2005 and spent time in the US, UK Smaller Companies and Japanese Equities Teams. Stephen graduated BSc (Hons) in Financial Mathematics in 2005.



Iain Campbell, Developed Asia

Iain joined Baillie Gifford in 2004 and is a member of the Japanese Specialist Team. Iain has been involved in running the Developed Asian portion of the Managed Fund since 2014 and became a Partner of the firm in 2020. Most of Iain's investment career has been focused on Emerging and Developed Asian markets. He has responsibility for managing various specialist Developed Asia, including Japan, portfolios and is also a member of the International All Cap Portfolio Construction Group. Prior to joining Baillie Gifford, he worked for Goldman Sachs as an analyst in the Investment Banking division. Iain graduated BA in Modern History from the University of Oxford in 2000.



Kirsty Gibson, North America

Kirsty joined Baillie Gifford in 2012 and is an Investment Manager in the US Equities Team. She has been involved in running the North American portion of the Managed Fund since 2021. Kirsty graduated MA (Hons) in Economics in 2011 and MSc in Carbon Management in 2012, both from the University of Edinburgh.



Members of the Policy Setting Group (PSG)

Iain McCombie, Andrew Stobart and Steven Hay along with a senior portfolio manager from our Multi Asset Team.

The Fixed Income Managers



Steven Hay, Rates and Currencies



Steven is the co-lead Manager on our flagship Managed Fund. He has been involved in running the Fixed Income portion of the Fund since 2012. Steven joined Baillie Gifford in 2004 and is Head of the Income Research Team. Prior to joining Baillie Gifford, Steven was a Fixed Income Investment Manager with Scottish Widows. His experience includes seven years undertaking analysis and research for the Bank of England's Monetary Policy Committee, and involvement in managing the UK's foreign exchange reserves. Steven graduated BA (Hons) in Economics and Accountancy from the University of Glasgow in 1992 and MSc in Economics from the University of Warwick in 1993.



Philip Annen, Rates and Currencies

Phil is an Investment Manager in the Global Rates & Currencies Team and has been involved in running the government bond portion of the Managed Fund since 2003. He joined Baillie Gifford in 1999 and worked in the Risk Department before becoming a Fixed Income Investment Manager in 2002. Phil graduated MSc in Physics from the University of Bern in 1997 and MSc in Financial Maths from the University of Edinburgh in 1998.



Torcail Stewart, Credit

Torcail joined Baillie Gifford in 2008 and is an Investment Manager in the Credit Team. He has been involved in running the corporate bond portion of the Managed Fund since 2018 and has managed our Strategic Bond Fund since 2010. Prior to joining Baillie Gifford, he worked as an Investment Analyst for the Alliance Trust's UK Large Cap Equity Fund. Torcail graduated BA in Geography from the University of Cambridge in 2002 and MPhil in Management, Economics and International Relations from the University of St Andrews in 2005. Torcail is a member of the UK Society of Investment Professionals (UKSIP).



Members of the Policy Setting Group (PSG)

Iain McCombie, Andrew Stobart and Steven Hay along with a senior portfolio manager from our Multi Asset Team.

Process

As already mentioned, the equity part of the process consists of bottom-up stock picking. This can be broken down into opportunity, execution and valuation.

The first part is the opportunity available to the company to grow its earnings, cash flow and therefore returns by above-average rates over the long term. Baillie Gifford assess this by analysing the industry in which it operates and whether the company possesses clear and sustainable competitive advantages. They also consider the likely growth rate of the industry, the structure of pricing, barriers to entry, the uniqueness (or otherwise) of the product offering, any enduring cost or technological advantages and the loyalty of customers.

Execution is the ability of the company to capitalise on the opportunity. Baillie Gifford analyse the financial characteristics of each business, looking in particular for high free cash flow, a well structured balance sheet and secure access to sources of funding. Baillie Gifford also consider: ownership structure; company culture; and the abilities and motivations of the management teams, with a strong emphasis on capital allocation decisions. This is all combined in helping to assess whether a company is likely to capitalise on its opportunities for profitable growth.

The final part is valuation. Baillie Gifford focus on the likely long-term trends in earnings and cash flows and they look for companies where their assessment of these long-term trends is markedly different from what is currently reflected in the market's valuation. The metrics used will vary by person and industry.

The dual objectives of the fixed income part of the fund - deliver returns and act as a balance to equities - are considered when making allocations to developed market government bonds, investment grade credit, high yield

corporates and emerging market debt.

With government bonds, positions incorporate interest rate and active currency views, driven by Baillie Gifford's assessment of the economic fundamentals and market environment across the various developed and emerging countries.

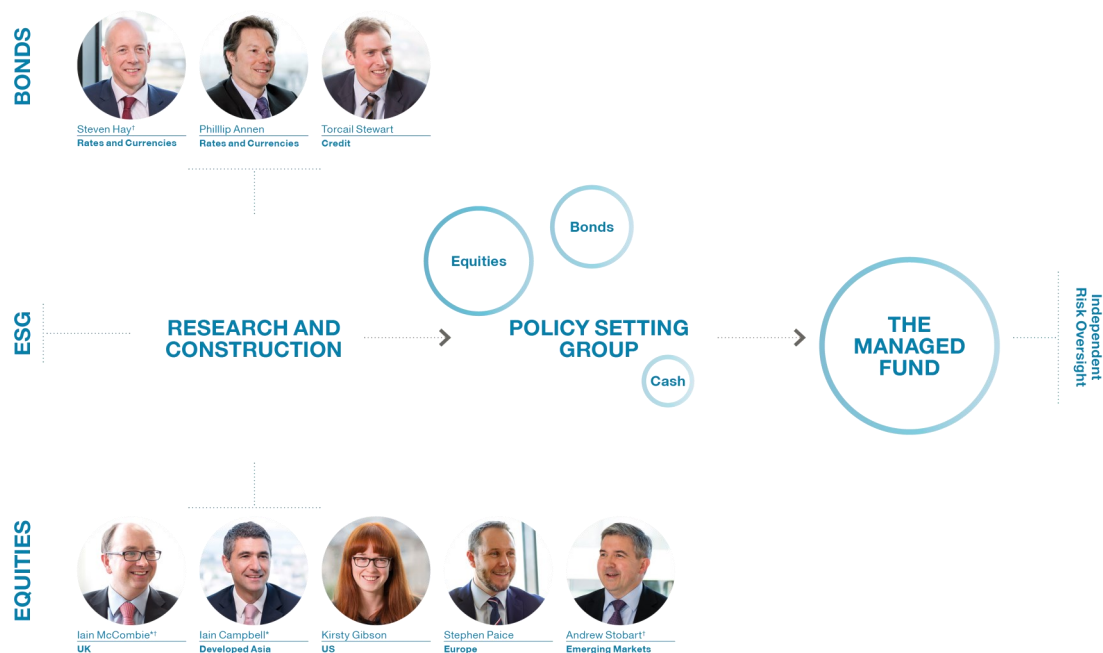
In terms of corporate bonds, Baillie Gifford follow a stock-picking approach based on fundamental analysis, focusing on 'resilient' companies. They also apply a currency overlay to the bond portfolio, allowing them to reflect views based on fundamental country analysis.

As is the case with equities, a longer-term approach is taken with bonds.

Portfolio construction for the Managed Fund is on a bottom-up basis, with all holdings in the portfolio on merit rather than to manage exposure against the index. Each of the 6 component parts of the portfolio are the responsibility of the individual manager (see p10). The Policy Setting Group meet regularly to assess the inputs and set targets for the fund's exposure to each region and asset class, driven by the enthusiasm of managers rather than macroeconomics. Significant over or underweight positions, relative to a strategic benchmark of 75% equities and 25% bonds/cash, may be taken if Baillie Gifford believe the investment environment justifies such a move. These are subject to a guideline of $\pm 10\%$.

Latest numbers show 205 equity and 143 bond holdings in the portfolio. Position sizes are based on conviction.

A holding may be reduced in size or sold if the individual investment case weakens, for example a change in company management for the worse.



^{*}Partner
[†]Policy Setting Group

Risk management

Baillie Gifford's approach to risk focuses on 3 different areas:

Fundamental risk - new buy ideas are subject to thorough review by the investment teams while the fundamental performance of the companies in which they already invest and the expectations upon which their decisions were based are continuously re-examined.

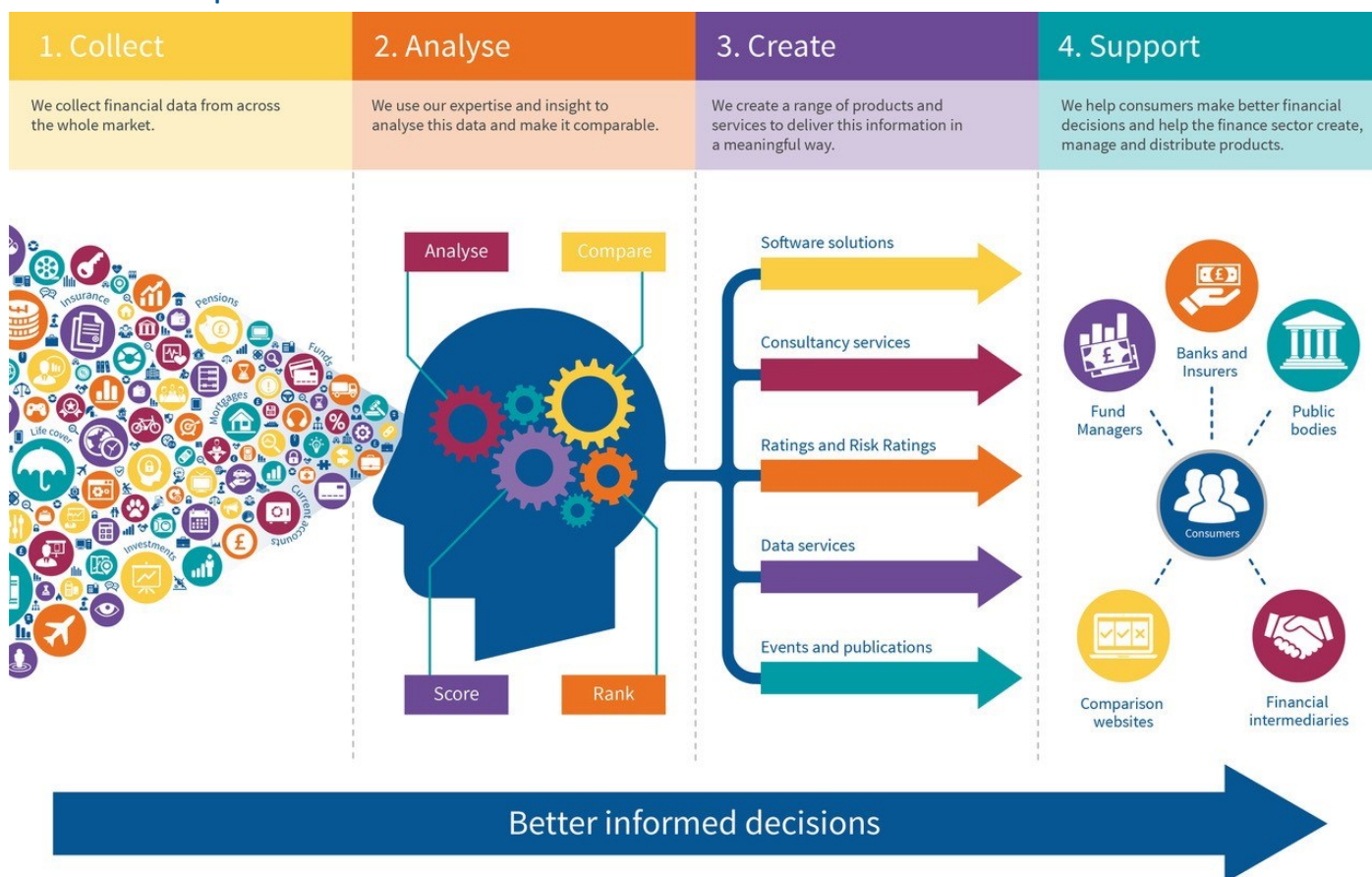
Portfolio risk - at fund level, Baillie Gifford believe that the main controllable long-term risk is a lack of diversification. They therefore have the following guidelines in place:

- Asset class, +/- 10% relative to the strategic asset allocation (75% in equities, 25% in bonds and cash)
- Region, +/- 10% relative to the strategic asset allocation (18.75% in each of UK, US, European and Asian equities (Developed Asia and Emerging Markets))
- Sector, representative indices based on MSCI classifications +10% (no minimum)
- Stock, representative indices based on MSCI classifications +3% (excluding funds)

Risk department - Baillie Gifford have a dedicated, independent Investment Risk Team that monitor and report risk and challenge the investment team if necessary (eg if there are undue correlations or concentrations of risk), and formally report every 6 months.

Risk models from Moody's Analytics and APT are used to assist with this. The Moody's model reflects long-term behaviour of asset classes and incorporates extreme scenarios, while the APT system is used for day-to-day monitoring and to look at security-specific risk contributions.

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If you would like more information, please contact sales@defaqto.com or call us on 0808 1000 804.

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