

# Fund Review

Baillie Gifford

Pacific 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  
Pacific Fund  
Patrick Norwood, CFA

## Executive summary



The Baillie Gifford Pacific fund is a well established fund, having launched in March 1989.

Roderick Snell and Ben Durrant are the portfolio managers dedicated to this fund, supported by the Emerging Markets Equity Team of nine, which is headed up by Will Sutcliffe.

The fund aims to outperform (after deduction of costs) the MSCI AC Asia ex Japan Index, as stated in sterling, by at least 2% per annum over rolling five year periods.

The strategy has a strong growth bias, focusing on three key persistent market inefficiencies. Taking a long-term view of 5 years plus, Baillie Gifford aim to deliver 'alpha' to clients by investing in companies that can grow their profits faster than

the market. Index and sector agnostic, the primary objective is finding the best long-term Asian investments irrespective of country or sector.

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

## Investment objective

The Pacific Fund is primarily a long-term Asian growth fund and aims to outperform (after deduction of costs) the MSCI AC Asia ex Japan Index, as stated in Sterling, by at least 2% per annum over rolling five-year 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. The Fund takes a long-term view, with a time horizon of five years or more.

## 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	March 1989
Fund Manager	Roderick Snell & Ben Durrant
Domicile	GBR
Assets	Active
Approach	Return Focused
Type	OEIC

ISIN <sup>1</sup>	GB0006063233
IA sector	Asia Pacific Excluding Japan
Morningstar category <sup>2</sup>	Asia ex-Japan Equity
Defaqto Diamond Rating Type	Asia ex-Japan Equity
Diamond Rating	-

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

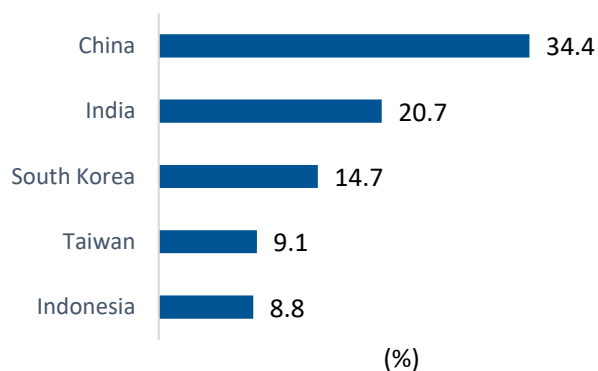
<sup>2</sup>The Morningstar Category is used in all comparative analysis, over the following pages.

## Fund size and fees

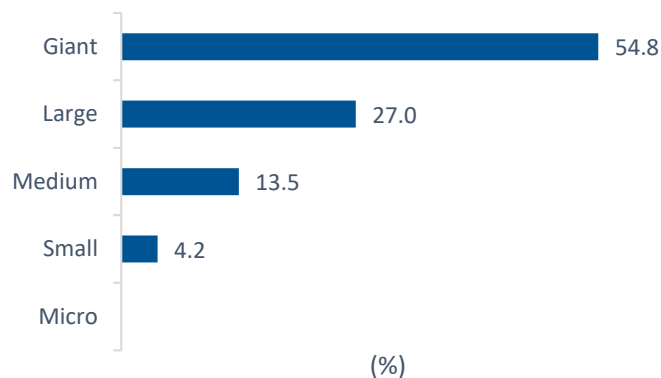
AUM	£2509M
Date	30 December 2022
OCF Estimated	0.75%
OCF Actual	0.76%
Transaction Fee Actual	0.14%
Performance Fee (Yes/No)	No
Performance Fee Actual	n/a

## Geographical exposure and market capitalisation/credit maturity

Regional Equity Allocation



Market Capitalisation Equity Allocation



Source: Morningstar, 30/12/2022

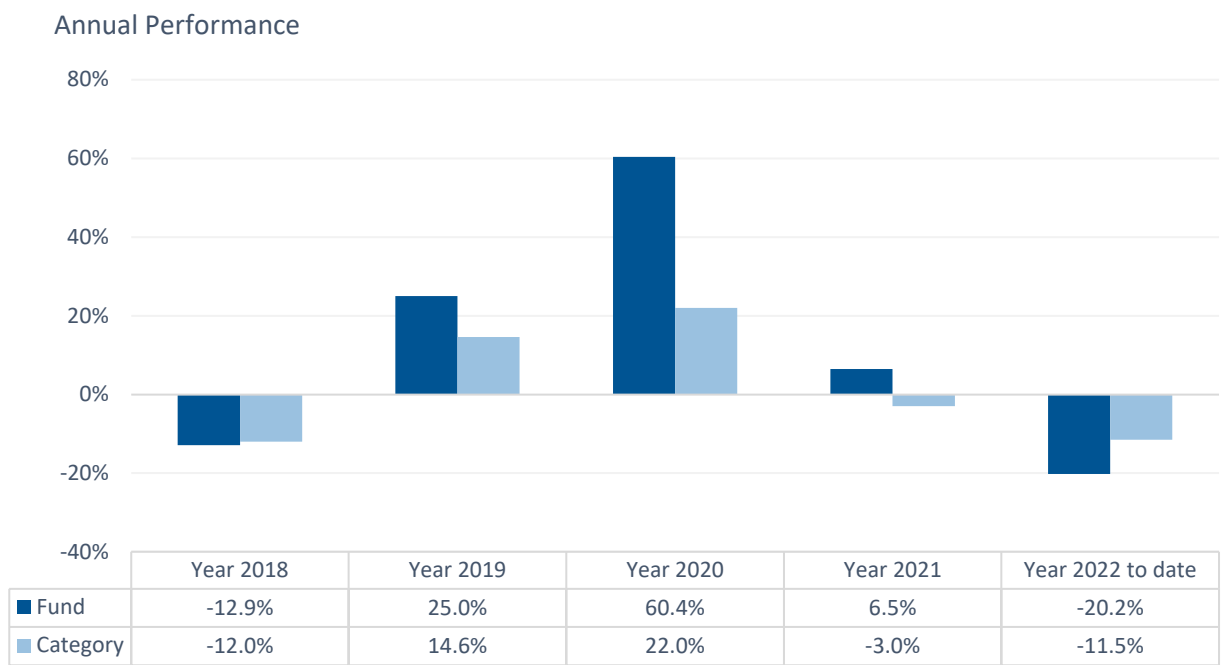
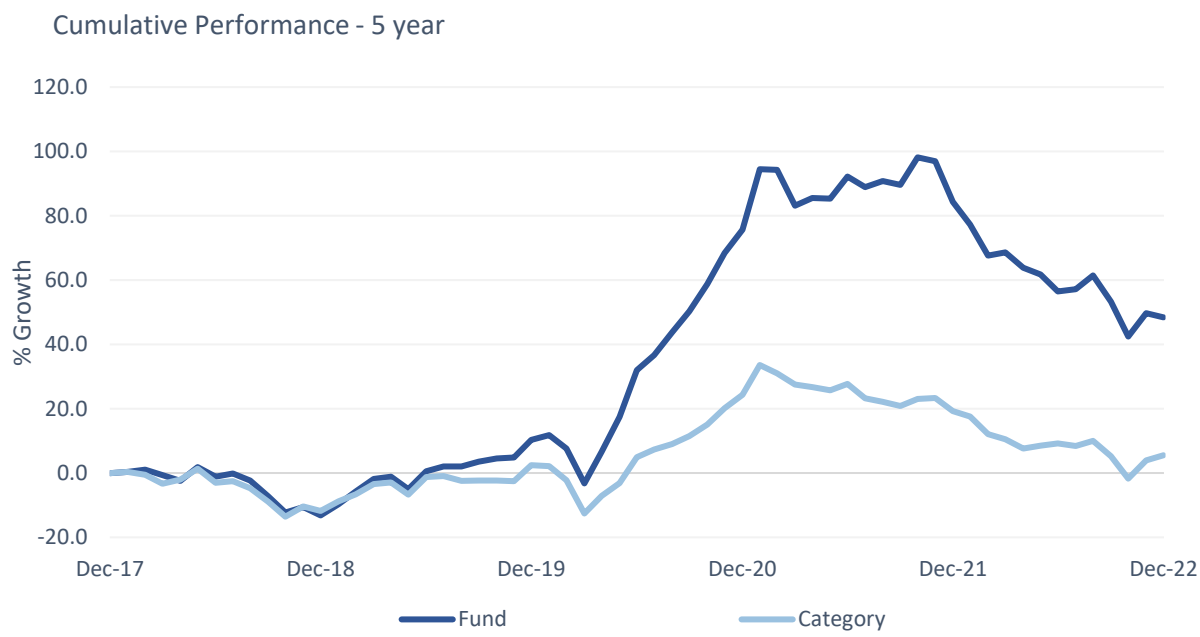
## Top 10 holdings

Total Number of Equity Holdings	86
Total Number of Bond Holdings	-
Assets in Top 10 Holdings (%)	31%

Name	Country	% of assets
Reliance Industries Ltd	India	4.6
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	4.5
Samsung SDI Co Ltd	South Korea	3.7
JD.com Inc Ordinary Shares - Class A	China	3.5
PT Merdeka Copper Gold Tbk	Indonesia	2.9
Samsung Electronics Co Ltd Participating Preferred	South Korea	2.7
CNOOC Ltd	China	2.5
Alibaba Group Holding Ltd Ordinary Shares	China	2.2
PT Bank Rakyat Indonesia (Persero) Tbk Class B	Indonesia	2.1
Zijin Mining Group Co Ltd Class H	China	2.1

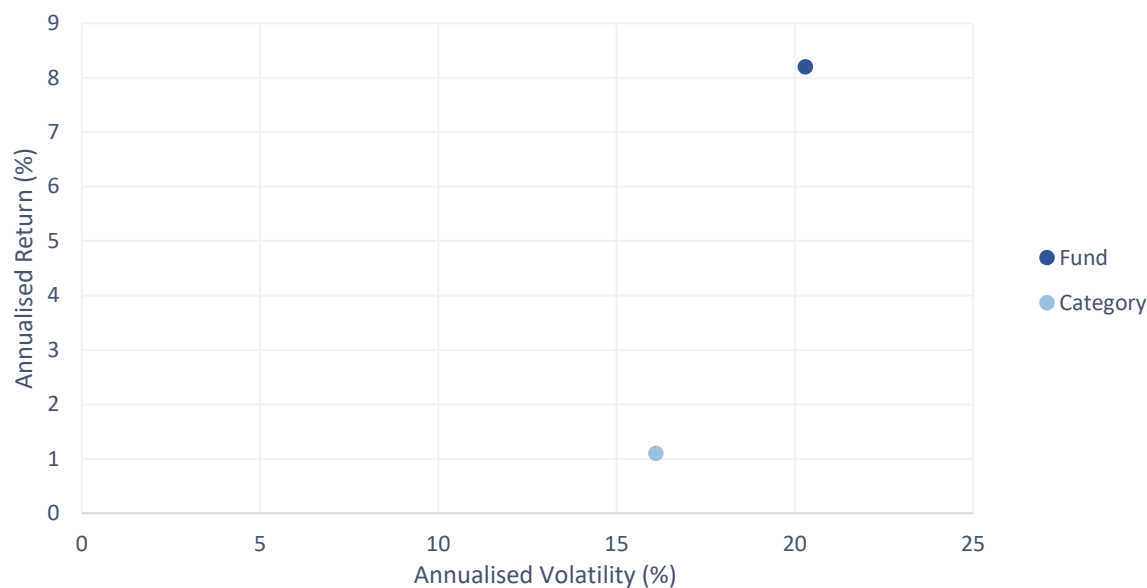
Source: Morningstar, 25/01/2023

# Performance



# Risk

Risk vs Return- 5 year



Source: Morningstar, 30/12/2022

## Drawdown

Last 60 Months	
Max Drawdown	-36.0%
Positive Months	31
Negative Months	29
Worst Month	-9.9%

Source: Morningstar, 30/12/2022

## Liquidity

Days to liquidate holdings	% of portfolio
1 - 7 days	85.7
8 - 30 days	13.6
31 - 180 days	0.7
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

Central to Baillie Gifford's philosophy is identifying the best underappreciated growth companies in the Asia ex Japan universe, as this is the main driver for returns. The Emerging Markets Equity Team look for companies with exceptional growth potential that can double over five years and expect most of this doubling to come from earnings growth. By taking a long-term view in a short-term market, the team aim to invest in companies that exhibit such potential before they are identified by the wider market. By accepting risk and embracing uncertainty, the approach allows the team to choose inflection points with attractive upside potential whilst managing short-term periods of volatility.

The framework underpinning the philosophy is as follows:

### Long Term

Even though stock prices can be very unpredictable in the short-term, prices do follow earnings over the long-term. Key to identifying a company with growth potential is having the patience and allowing the investment horizon to deliver on this. The Pacific Fund should therefore be judged on a 5 year plus time horizon.

### Growth

Research carried out by Baillie Gifford shows that the greatest source of alpha over the long term lies within companies that are able to grow their profits faster than the

market. As such, the focus on identifying companies with the ability to grow earnings at double digit rates over the long terms is paramount within the team.

### Active

Active management in Asia ex Japan can be beneficial for a number of reasons. Firstly, approximately a quarter of the index are State Owned Enterprises that may not have shareholder interest at heart. Active management allows this landscape to be navigated, aligning the interests of the portfolio with the shareholders. Secondly, at times market cycles may present suitable inflection points for certain Asian countries, but there will also be times when exposure might be limited. Lastly, there are only a handful of companies within the sector that deliver the exponential growth capabilities the team are looking for, therefore the freedom to be selective is absolutely necessary.

## People

Roderick Snell and Ben Durrant are the portfolio managers dedicated to this fund, supported by the Emerging Markets Equity Team of nine, which is headed up by Will Sutcliffe.

### Roderick Snell

Roderick joined Baillie Gifford in 2006 and is an Investment Manager in the Emerging Markets Equity Team. He previously worked in the UK and European Equity Teams and has managed the Baillie Gifford Pacific Fund since 2010. Roderick graduated BSc (Hons) in Medical Biology from the University of Edinburgh in 2006.









### Ben Durrant

Ben is an Investment Manager in the Emerging Markets Team and before that he was an Investment Analyst in the Private Companies Team. He joined Baillie Gifford in 2017. He previously worked for RBS in their Group Strategy and Corporate Finance Team. He is also a Chartered Accountant and CFA Charterholder. Ben graduated BSc (Hons) in Mathematics from the University of Edinburgh in 2012.

The Emerging Markets Equity Team have worked together for many years, with half the team working together for more than a decade. Baillie Gifford pride themselves on the breadth of perspective and diversity of thought throughout the firm and actively encourage recruitment of new investors from a variety of academic disciplines, ensuring idea generation remains original.

Please see next page for a chart showing the Emerging Markets Equity Team.

## The Investment Team

			
<b>Roderick Snell</b> 16 (16) years' experience	<b>Kitsu Egerton</b> 1 (1) year's experience	<b>Sophie Earnshaw</b> 12 (12) years' experience	<b>Mike Gush*</b> 19 (19) years' experience
			
<b>Ben Durrant</b> 10 (5) years' experience	<b>Huatai Cui</b> 3 (3) years' experience	<b>Andrew Stobart</b> 31 (31) years' experience	<b>Will Sutcliffe*</b> 23 (23) years' experience
+1 analyst dedicated to ESG. *Partner (Years with Baillie Gifford)			

## Process

The primary role of each team member is carrying out fundamental stock research, and this is what the Emerging Markets Equity team spends the majority of their time doing, as is the case with other investment teams within Baillie Gifford.

Research responsibilities are allocated by geographic region with dual coverage rather than by global sector, as the Emerging Markets Equity Team believe the investment case is impacted by the unique characteristics of individual countries. Geographic coverage is rotated between team members every few years ensuring that the longer serving team members will eventually cover all EM countries within their research. Furthermore, this approach means that conviction stems from experience and foresight within the team.

The framework for the research agenda is agreed between team members and investment partners in meetings that take place twice a year. Given the portfolio's tendency towards long holding periods (multi year), team members are afforded time to undertake thorough analysis on potential new investments using a variety of means. Team members need only find a small number of new ideas in any given year.

The team have complete freedom to engage with company management, competitors and industry experts to name but a few sources, and investment trips are a frequent part of this process. The Emerging Markets Equity Team are centrally located in Edinburgh encourages a culture of cross-sharing research between other investment teams within the firm.

Investment ideas, both new and existing, are reviewed by the team at the weekly research meeting, and open debate is

widely encouraged within the team. Ultimately it is the co-managers who make buy or sell decisions.

The strategy focusses on finding companies that are capable of doubling in USD terms over a rolling five year period, with most of this doubling coming from earnings growth. With this in mind, the team look to exploit three key market inefficiencies:

### Duration

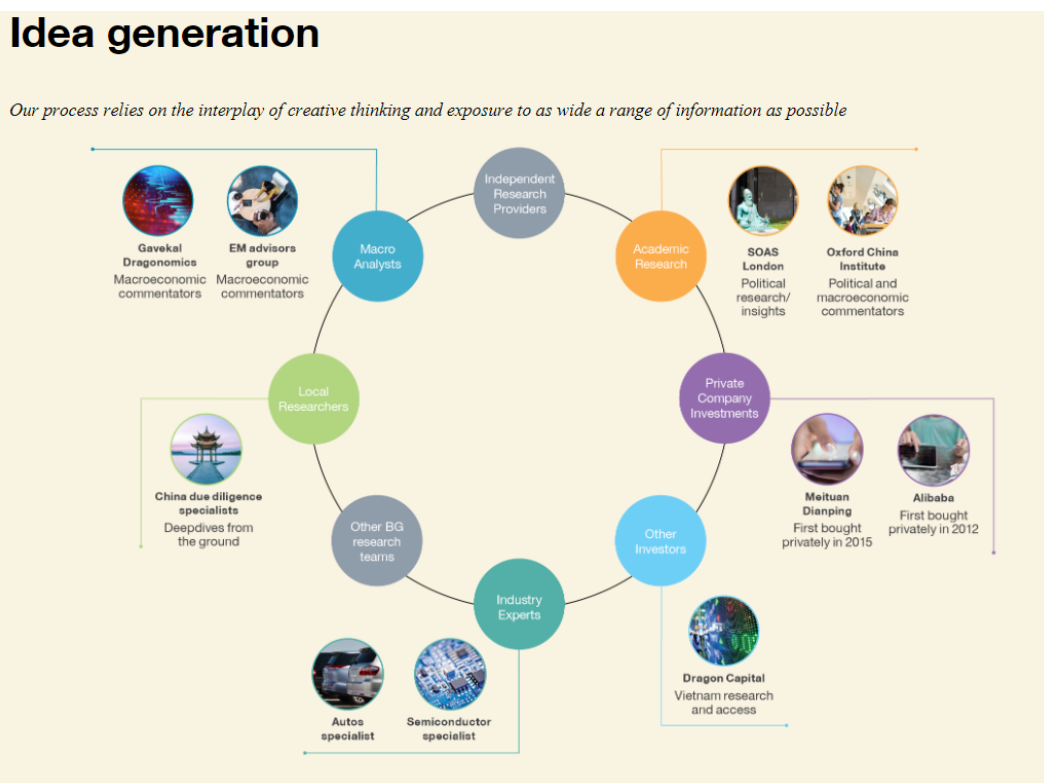
The team have a philosophy of accepting risk and embracing short-term volatility when reinvestment cases require it. This approach allows the team to take long term investment view and hold companies that have excellent long-term earnings growth potential but may have unpredictable profits from one quarter to the next, and as a result are often out of favour in the market.

### Pace

Baillie Gifford believes that the pace of growth in the market is more often than not underestimated. The investment process involves identifying those companies that have the potential to grow very rapidly amongst the mispricing which often occurs in the market off the back of earnings growth predictions.

### Surprise

Analysis by Baillie Gifford has shown that the strongest returns are often found in companies that achieve dramatic changes in profitability (low to high) that have not been priced in by the market. The team therefore focus on identifying the inflection points, which will drive this shift in profitability.



## Risk management

Baillie Gifford has a dedicated Investment Risk, Research and Analytics Team with a range of tools and risk measures at their disposal to analyse risk within the portfolio. The team make use of third party models provided by APT, Style Research and UBS.

Overall the team take a pragmatic approach to risk management following simple diversification practices in line with client mandates whilst maintaining their investment convictions.

Baillie Gifford believe the permanent loss of capital is the most important risk to any portfolio. Systematic risk is mitigated by running as many individual ideas within the portfolio as possible.

In addition Baillie Gifford consider the following areas of risk:

### **Fundamental risk**

Following detailed stock analysis in the research process, new ideas subject to thorough review by the Emerging Markets Equity Team. The investment case for all holdings is constantly re-examined, with input also from other research teams across Baillie Gifford.

### **Portfolio risk**

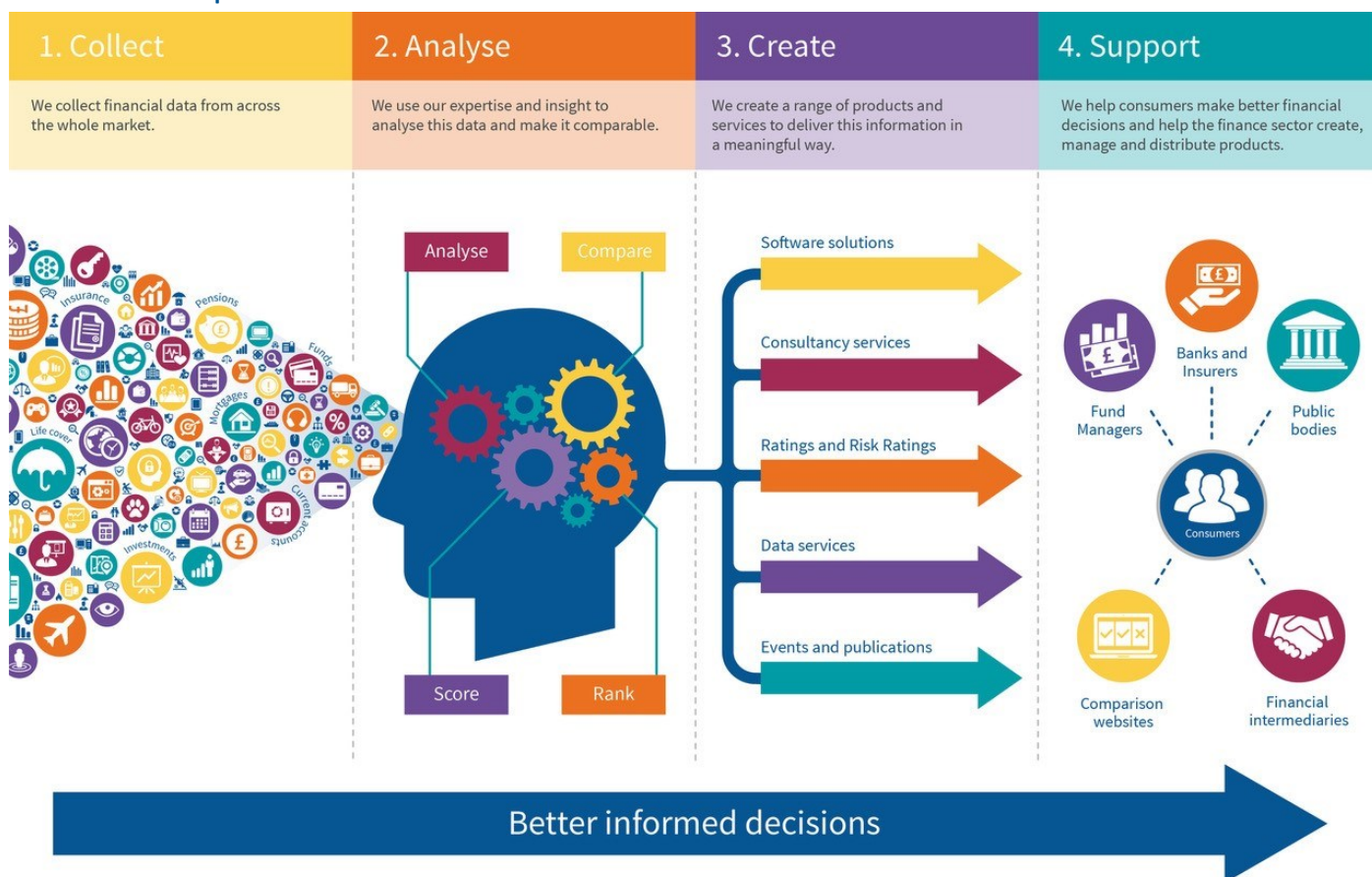
Baillie Gifford seek to ensure that portfolios are sufficiently diversified and managed in accordance with guidelines, which are formally reviewed on a regular basis.

### **Liquidity Risk**

A framework around liquidity ensures positions can be liquidated and client cash-flow requirements met with minimal disruption to the overall portfolio strategy. No more than 10% of Emerging Market strategies will be invested in stocks where more than 8 days of trading volume is held.

Investments will be sold if the team believe an investment case has diminished or if there is a stronger investment case that exists elsewhere.

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