

Investment Trust Review

Baillie Gifford

The Monks Investment Trust PLC

March 2023



For professional advisers only

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Defaqto Investment Trust Reviews

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

The qualitative information covers specific areas including the 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 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:



Investment Trust Review



Baillie Gifford
The Monks Investment Trust
Patrick Norwood, CFA

Executive summary



We endeavour to confirm the accuracy of the qualitative content of this document annually. The qualitative content for this review was last confirmed as accurate by Baillie Gifford on 07/03/2023.

The Monks Investment Trust sits within the Global Alpha team at Baillie Gifford. The firm has a strong belief in the benefits of diversified recruitment when assembling its team members.

The Trust aims for long-term capital growth, which takes priority over income.

The gearing can range from +15% to -15%, with a standard position of approximately +10%.

The team look to invest in equities that provide sustainable growth in terms of revenues, earnings and cash flows, with a core belief that share price growth follows earnings growth.

The Trust selects investments with a minimum 5 year time horizon. The team's rule of thumb is to select holdings that they reasonably believe have at least a 30% chance of doubling in the next 5 years or tripling over the next 10 years.

The managers believe in 'Patient Ownership' and feel the asymmetric return profiles in equities allow disciplined investors to embrace the uncertainty. The portfolio turns over approx. 20% of the positions on an annual basis, which shows the long-term nature of the holdings.

The team can invest in late stage private companies with a limit of 10% in the fund.

The team considers Stewardship and ESG important factors when selecting investments.

Investment objective

Monks Investment Trust aims for long-term capital growth which takes priority over income. This is pursued through applying a patient approach to investment, principally from a

differentiated, actively managed global equity portfolio containing a diversified range of growth stocks.

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 3.7% for 2022.

Overall, the firm has 1,839 staff, of which 153 are fund managers and analysts and about £223bn in AUM (as at 31 December 2022). Their main office is in Edinburgh, which is where all investment decision-making takes place.

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

Quantitative review



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.

Investment trust information and classification

Launch date	06 February 1929
Manager	Spencer Adair
Manager start date	April 2000
Management firm	Baillie Gifford & Co
Firm start date	1929
Exchange	London Stock Exchange
Assets	Active
Approach	Return Focused
Share type	Investment Trust

AIC sector	Global
Morningstar category*	Global Large-Cap
Defaqto Diamond Rating	Global Equity
Diamond Rating	-

*Note: The Morningstar Category is used in all comparative analysis, over the following pages.

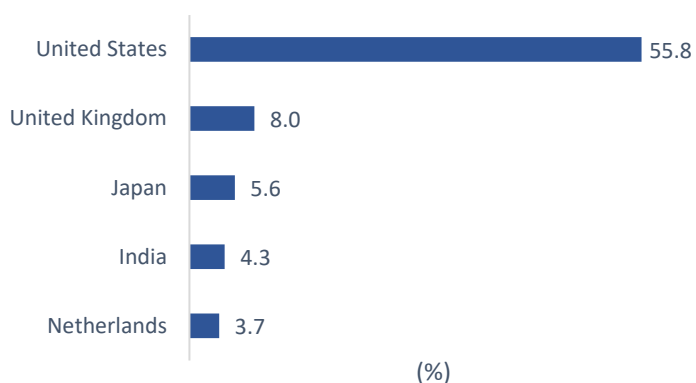
Other key data

Date	28 February 2023
Net Asset Value (NAV)	£1,090
Market Capitalization	£2,303M
NAV Premium / Discount	-9.7%
Gearing	7.00%
Gearing Range	(+/-)15%
Ongoing Charge	0.65%
Performance Fee (Yes/No)	No
Performance Fee Actual	n/a
Discount Control Mechanism	Yes

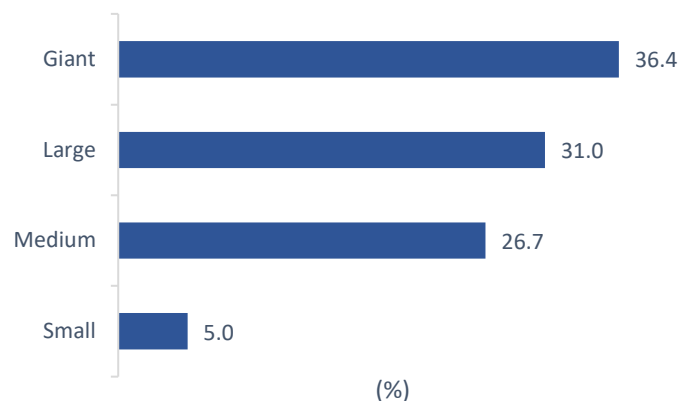
Source: Morningstar and Baillie Gifford

Geographical exposure and market capitalisation/credit maturity

Regional Equity Allocation



Market Capitalisation Equity Allocation



Source: Morningstar, 28/02/2023

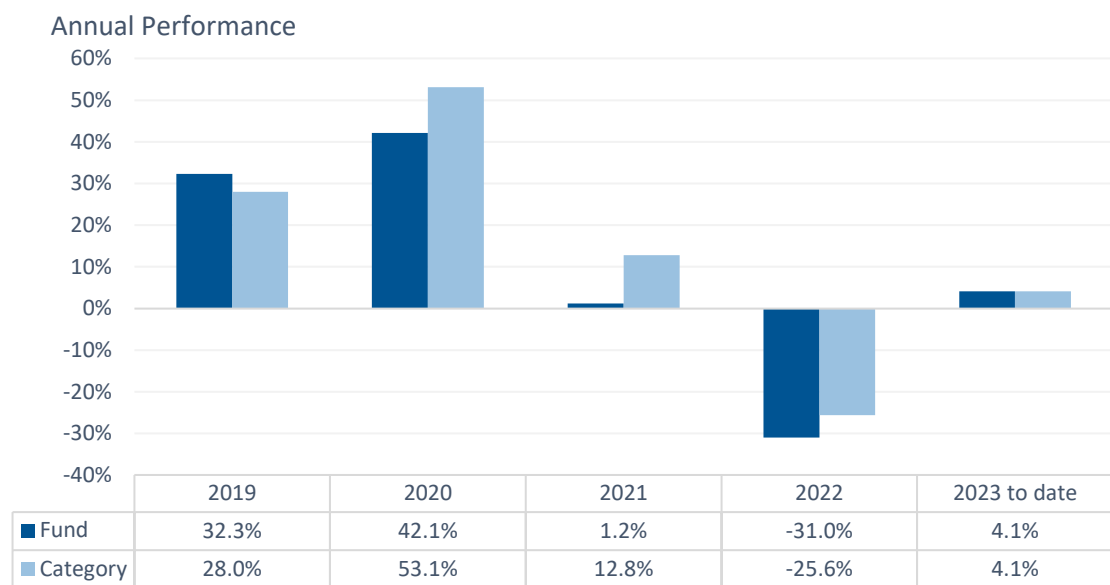
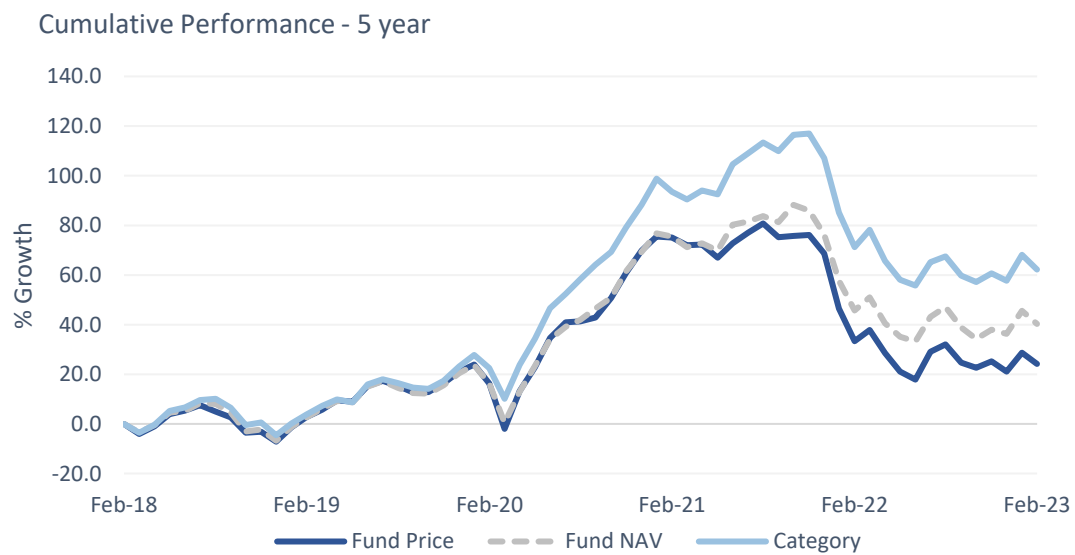
Top 10 Holdings

Total Number of Holdings	112
Assets in Top 10 Holdings (%)	25.4

Name	Sector	Country	% of assets
Elevance Health Inc	-	United States	3.9
Prosus NV Ordinary Shares - Class N	-	Netherlands	3.0
Microsoft Corp	-	United States	2.7
Martin Marietta Materials Inc	-	United States	2.5
Service Corp International	-	United States	2.5
Reliance Industries Ltd ADR	-	India	2.5
Moody's Corporation	-	United States	2.2
Alphabet Inc Class A	-	United States	2.1
Pernod Ricard SA	-	France	2.0
Arthur J. Gallagher & Co	-	United States	2.0

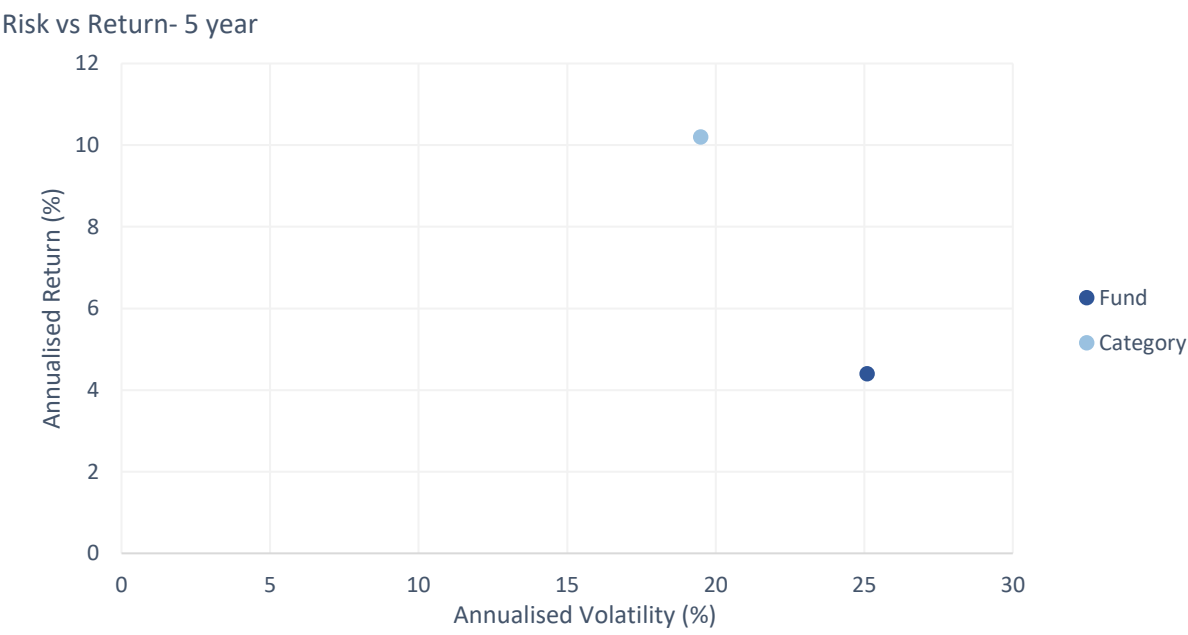
Source: Morningstar, 08/03/2023

Performance



Source: Morningstar, 28/02/2023

Risk



Source: Morningstar, 28/02/2023

Drawdown

Last 60 Months	
Max Drawdown	-40.1%
Positive Months	33
Negative Months	27
Worst Month	-15.7%

Source: Morningstar, 28/02/2023

Philosophy

The Monks Investment trust philosophy is to make stable, long-term, active, investments in companies that have the potential to grow at a faster rate than the broader market.

Baillie Gifford are active, growth investors, whose research focuses on unearthing 'exceptional companies' that have the potential to grow to multiples of their current valuations.

The trust selects investments with a minimum 5-year time horizon and only includes securities they feel can at least double over that time period.

Of the selected securities, they also aim to have a small number that perform exceptionally well. The team look to invest in equities that provide sustainable growth in terms of revenues, earnings and cash flows, with a core belief that share price growth follows earnings growth.

The investment trust is unconstrained by a benchmark and has a broad global remit, with an investible universe of around 4,000 securities. The managers think only a small fraction of these provide the type of growth they are looking for, typically holding around 120 positions.

The team look to invest in a broad range of securities and types of growth, selecting their securities on a bottom-up basis. They do this by gaining a thorough understanding of the underlying companies, believing that information derived from companies is usually more reliable than economic statistics.

The managers believe in 'Patient Ownership' and feel the asymmetric return profiles in equities allow disciplined investors to embrace uncertainty. The portfolio turns over approx. 20% of the positions on an annual basis, which shows the long-term nature of the holdings.

They are aware that not all of their investment ideas will work out, though any investments that aren't as successful as hoped will be 'more than made up for' by the handful of special business that grow by multiple times. They consider their greatest mistake would be a 'sin of omission', if they missed out on a company that grows 10x its current size, as opposed to the fear of investing in one that falls 50%.

People

The Monks investment trust sits within the Global Alpha team at Baillie Gifford. The firm has a strong belief in the benefits of diversified recruitment when assembling its team members.

Spencer Adair is the lead manager of the trust. He joined Baillie Gifford in 2000 and became a partner in 2013. Prior to joining the Global Alpha team, Spencer worked in the Fixed Income, Japanese, European and UK equity teams. Spencer studied Medicine at University of St. Andrews and undertook 2 years of clinical training before joining the firm.

Malcolm MacColl is the deputy manager of the trust and an investment manager in the Global Alpha team, he joined the firm in 1999 and was made partner in 2011. Malcom graduated with an MA in Economics and History and a MLitt in Economics, Politics and Management from the University of St. Andrews.

Helen Xiong joined Baillie Gifford in 2008 and is an investment manager for the trust. She graduated with a BSc in Economics from Warwick University and an MPhil in Economics from the University of Cambridge.

The team is supported by 3 dedicated analysts. Dreyfus Neenan and Jared Anderson are analysts, working in New York and Edinburgh respectively, who support the managers with equity research. Kieran Murray is the team's dedicated ESG analyst.

The broader team of analysts who support all of the investment teams at Baillie Gifford are referred to as 'scouts'. The scouts are arranged into seven broad groups covering various markets. These are smaller companies, Developed Asia, Emerging Markets, North America, UK, Europe and China.

The Global Alpha team also benefit from the skills and experience of the other managers on the investment floor, where they exchange ideas across strategies.

The team

Global Alpha Portfolio Managers



Spencer Adair
Investment Manager



Malcolm MacColl
Investment Manager



Helen Xiong
Investment Manager

Global Alpha Team

Kieran Murray
ESG Analyst

Dreyfus Neenan
Senior Analyst

Jared Anderson
Investment Manager

Global Alpha Scouts

Global Smaller
Companies

Developed
Asia

Emerging
Markets

North
America

UK

Europe

China

Wider Baillie Gifford Investment Teams

Global
strategies

International
strategies

Regional
strategies

Private
Companies

Multi-Asset
and
Fixed income

Investment
Risk & Analytics

Harnessing the best ideas from across Baillie Gifford

Source: Baillie Gifford, 31/12/2022

Process

The profile of securities selected in the portfolio fall into three broad categories:

Compounders, companies who have a durable franchise and strong competitive advantage e.g. Google.

Disrupters, companies who are innovative with a vast opportunity e.g. Spotify.

Capital Allocators, companies with skilled management who successfully allocate capital counter cyclically e.g. CBRE group.

The positions held usually start in the portfolio as a small position (~0.5%), which are generally considered 'incubator' holdings. An example is Naspers, which grew rapidly after performing well for the trust. More established positions grow to either medium (~1%) or large holdings (~2%), through price rises or further purchases. The team will not let a position grow to larger than 6% of the portfolio. An example of this can be seen in their position in Tesla, which they trimmed several times due to a rapid valuation rise.

The team's rule of thumb is to select holdings that they reasonably believe have at least a 30% chance of doubling in the next 5 years or tripling over the next 10 years. They are also looking for companies with a low debt to equity ratio.

The team can invest in late-stage private companies with a limit of 10% in the fund. A few of these are made as direct investments in companies such as SpaceX and Ant Financial. Most of the allocation is made through the Baillie Gifford Schiehallion fund, however, managed by Peter Singlehurst and Robert Natzler. The top holdings in this fund at time of writing were Affirm, ByteDance and Stripe.

At Baillie Gifford, the investment managers are analysts by trade, and this is true in the Monks investment trust. This means that 'decision makers are doing the research' and understanding the fundamentals of the securities entering the portfolio. About a third of investment ideas for the trust

are generated within the team. The other two thirds of securities are sourced by the team of Baillie Gifford analysts, referred to as 'scouts'.

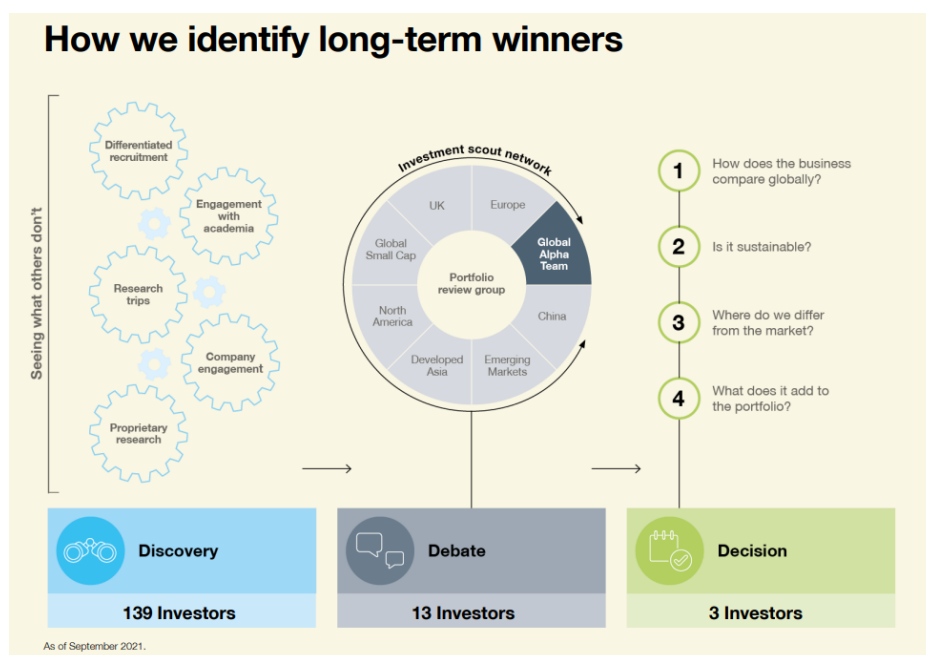
The global investment universe for the trust is approximately 10,000 securities. Using screens on factors like liquidity and market capitalization, these are narrowed down to 3,000 names to investigate further. This list is narrowed down further to around 760 securities that the analysts focus on.

This 'focus list' of stocks is then assessed by the scouts on the opportunity in the industry, the execution of the management team and the valuation metrics. Scouts present their Top 5 ideas to buy and Top 5 ideas to sell, periodically to the management team for discussion. These are then considered before changes to the portfolio are made.

The managers and scouts rely primarily on proprietary research gained through research trips and company meetings, though do use some third-party data to help shape their thoughts. They try and visit the investee companies at least once a year.

The team also considers Stewardship as a very important factor when selecting investments, with 5 key criteria needing to be met, which are: prioritization of long term value creation, a constructive and purposeful board, long term focused remuneration with stretching targets, fair treatment of stakeholders and sustainable business practices.

Along with Stewardship, the other ESG principles of Environment and Social considerations are also analysed and considered. The team are willing to exclude names from the portfolio if they do not meet the necessary standards, an example of this was a decision not to invest in Snapchat.



Source: Baillie Gifford

Risk management

Investment risk is seen by the managers as being the potential for permanent loss of capital (with the converse being an unlimited upside).

Maximum investment in any one holding is 6% at the time of purchase but position sizes may become larger due to absolute and relative performance. When this occurs, the effective number of stocks is used to decide whether to trim holding sizes.

The majority of the portfolio will be held in quoted equities with good liquidity; whilst the maximum amount which may be invested in companies not listed on a public market is 10% of the portfolio at time of purchase.

There are diversification guidelines to ensure the portfolio reflects ideas from a number of countries and sectors.

Concentration risk is analysed by considering the mix of economic exposures across the business areas of the companies held.

Strategic gearing is used with the aim of benefiting shareholders in the long term. No attempt is made to deploy short term tactical gearing shifts to capture market movements as Baillie Gifford do not believe that to be one of their competitive advantages.

Baillie Gifford have an Investment Risk, Research and Analytics Team, which is independent of the investment teams. This team provides two core functions:

Independent risk monitoring, which involves regular monitoring of the investment risk measures that are set out in the guidelines for the investment strategy as well as more in-depth analysis of the levels and sources of risk on a regular basis.

A research function for the investment teams. Examples of research include analysis of behavioural biases such as momentum, analysis of trading decisions plus analysis of style and thematic biases.

There is an Investment Risk Committee, which provides approval of investment risk guidelines as well as ultimate oversight and arbitration on any investment risk issues raised.

Baillie Gifford use the following systems for analysis of risk: FIS APT; Style Analytics and Factset.

Governance

The Monks investment trust benefits from an experienced and active board of 5 members. As is the case for Baillie Gifford as a firm, the board is gender and cognitively diverse.

The board is responsible for ensuring that the managers are working in the best interests of the investors and will set the parameters for certain mandate decisions including the gearing range, the allocation limits to asset classes like private companies and the discount control mechanism. The board meets 4 times a year.

Karl Sternberg is the chairman of the board and was appointed a director in 2013. Karl was CIO of Deutsche Asset Management and founder of Oxford Investment Partners. Karl is also on the board of several other business, including Jupiter Asset Management and Alliance Trust plc.

Belinda Richards was appointed to the board in 2016 and is a former senior partner at Deloitte LLP, where she specialised in operations and strategy development in financial services. She is a member of several boards including Schroder Japan Growth Fund.

Claire Boyle is a qualified chartered accountant and was appointed as a director in 2020. She started her career at Coopers & Lybrand, where she specialised in litigation support and forensic accounting. Claire then worked for

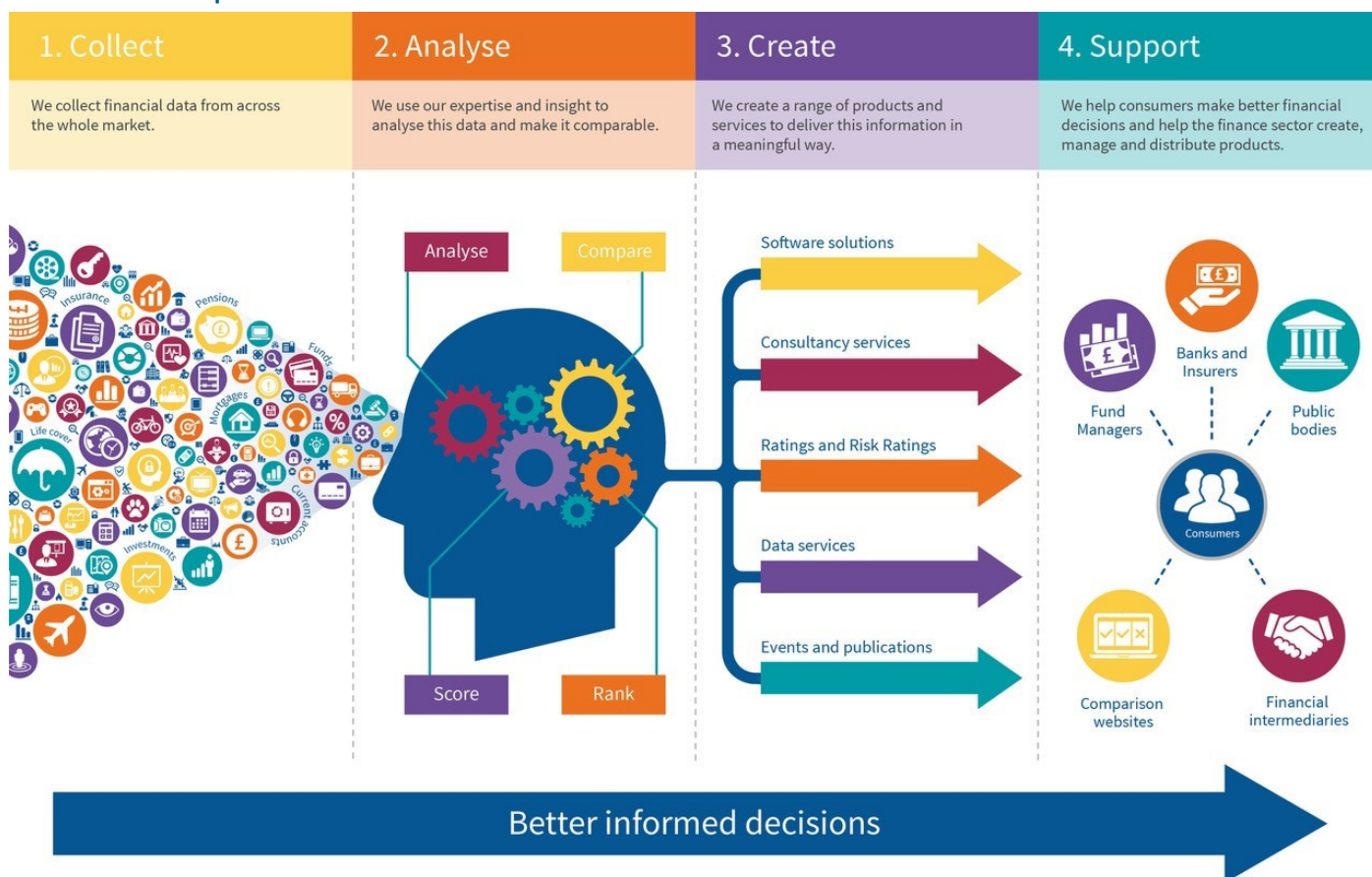
Robert Fleming Investment Management, American Express Asset Management and latterly Oxburgh Partners, where she was a partner responsible for their European equity hedge fund. She sits on several boards including being chair of the audit committee of Aberdeen Japan Investment Trust.

Professor Sir Nigel Shadbolt was appointed as a director in 2017. He is Principle of Jesus College Oxford and Professional Research Fellow in the Department for Computer Science. He is also a visiting Professor of artificial intelligence at the University of Southampton.

Jeremy Tighe was appointed a director in 2014 and chairman of the audit committee in 2015. Jeremy was the fund manager for Foreign and Colonial Investment trust plc from 1997 to 2014 and is a director of the Mercantile Investment Trust plc and Aberdeen Standard Equity Investment trust plc.

In addition, Dr Dina Chaya was appointed as non-executive director effective 30 November 2022.

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