Baillie Gifford Pacific

Asia Ex Japan

Introduction

This is a benchmark agnostic fund aiming to achieve capital growth by investing in the Far East, Australasia and the Indian sub-continent in any economic sector. The current policy excludes investment in Japan, New Zealand and Australia. The team take a bottom-up long-term approach to investing resulting in a low turnover whilst seeking to be different from the index resulting in a high active share. The fund typically holds 50 – 100 stocks with heavy weightings being allocated to the highest conviction companies. The portfolio is skewed more towards mid and small cap stocks than the index (MSCI AC Asia ex Japan Index).

Click here to read the Baillie Gifford approach to ESG investing.

Why RSMR Rate this Fund

- Disciplined investment process focused on bottom-up growth investing for the long term
- Multi-cap bias seeking exposure to long term secular growth trends within the region
- High conviction approach offering investors a differentiated proposition to a passive option
- Well resourced team led by the two co-manager who have delivered strong returns over the long term

Fund Process

The manager sits within the Emerging Market Team where each person is responsible for covering a number of holdings in the portfolio from a variety of industries. The team do not use quantitative screening in their investment process, instead, they focus on qualitative aspects and on valuing the company relative to its long-term growth potential.

Ideas may be generated in a variety of ways including research trips, contact with companies in the same or related industries, apparent mispricing of a stock relative to its peer group or as a result of team discussions. Company meetings are an important part of the investment process while other sources of information include speaking to competitors, customers and suppliers, regulators, industry consultants and journalists. A minimum hurdle rate for any new holding to enter the portfolio would be a belief that the company had the competitive advantage and managerial vision to see its growth potential through to fruition. The team set a high bar in terms of the rate of growth they aspire to, focusing on identifying companies with the potential to double their share price over the next five years. They are seeking strong management teams who are prepared to take a long-term perspective in the management of their businesses, and where there is evidence of actions to match.

Portfolio construction is largely driven by bottom-up stock selection. They are trying to take advantage of the asymmetry of returns that pervades markets, and holding sizes reflect the potential upside of an investment and the likelihood of it being realised. There are regular oversight meetings comprising senior investment managers and other senior representatives at the firm. They will review from a 'top-down' perspective, considering broader macro and political issues, challenging stock and sector positions and raising particular investment topics that the group feels should be considered. The fund does not conduct currency hedging as the team believe it is costly and difficult to implement. Both risk and liquidity are monitored on an ongoing basis by the respective investment risk teams and the centralised trading team.

Evaluation

The concentrated high-growth nature of the fund means that the performance generally comes at the expense of a higher volatility level than the sector average. Performance is driven by stock selection whereby five names can comprise up to 25% of the portfolio.

Application

The fund is particularly suitable for investors prepared to take a longer-term view who are willing to ignore short-term noise, and those looking to capitalise on secular growth opportunities in the region.

Our Opinion

This is a very distinctive Asian equity portfolio focused on secular growth companies. The managers take a high conviction, bottom-up 'best-ideas' approach focusing on companies which the team believe will benefit from the technological change and disruption driving the world today. They are aiming to identify these companies early and hold them for the long term so that they can accelerate revenue growth by scale and network effects. Owner-managed companies are also preferred where there is better long-term stewardship and alignment with shareholder interest. An approach such as this is always likely to result in lumpy performance and the team are not trying to deliver consistent incremental index outperformance on a year by year basis.