



## Baillie Gifford UK Equity Alpha

UK All Companies

### Introduction

The fund adopts a long-term, low turnover investment approach and aims to hold higher quality, growth companies which are principally listed in the UK and are capable of growing their profits and cashflows faster than the market average. It is a concentrated multi-cap UK equity fund typically comprising between 30 and 40 companies. The fund is managed by UK Team Head Gerard Callahan who is assisted by three other fund managers.



### Why RSMR Rate this Fund

- Strong house philosophy focused on 'quality growth' companies and investing for the long term
- High conviction portfolio built from bottom-up focus on long term company fundamentals, resulting in a high active share
- Proven stock picking expertise from a stable team who have built a consistent track record of outperformance

### Fund Process

The Specialist UK Team at Baillie Gifford are well informed generalists, rather than sector specialists. Baillie Gifford prefer to keep a format where the group discuss everything, as they believe this leads to better decision making, rather than just relying on one specialist on a stock within the team. The downside of this is that they don't have high levels of specialisation in particular sectors, however Baillie Gifford as a house has some specialists in sectors within global teams looking at areas such as energy and mining. The team do operate with some loose sector responsibilities. This is a high conviction fund where the team is prepared to back their judgement and deviation limits are +8% active on stocks at time of purchase and +/- 16% on sectors. Stock selection is driven by long term fundamentals, the team do not believe they can predict share prices in the short term, however, eventually prices follow fundamentals. The portfolio invests in UK equities with a cut off of £200m which gives a universe of around 400 names. There is a priority list of 130 stocks which is monitored covering everything owned plus a sample of other names and other stocks of possible interest. The focus of the portfolio is on high quality growth names and this is where the research effort is concentrated. Ideas are generated by a 'prospects' meeting every six weeks which is a brainstorming session with the idea to promote medium term strategic portfolio thinking. A team member produces a maximum three page note on an investment idea which first asks why this name is interesting, looking at both industry and company specific factors. The next part of the report tries to understand where the company will be in five years' time considering its competitive position, sales, profit margins, capital allocation and rating of the shares. Next the report outlines why the team should own it looking at valuation and key risks, trying to understand how Baillie Gifford can make money from the stock. The fourth part of the report looks to what would cause a change of view and make the team sell which, as well as valuation limits, includes any non-negotiable aspects of the investment case. Another member of the team is nominated to produce a note arguing the other way to avoid group think. After a decision has been taken there is ongoing monitoring and review to ensure conclusions continue to be challenged. Portfolio construction is driven by bottom-up stock selection and there are six baskets of stocks in the fund, stable growth, technology, oil majors, international cyclical, domestic cyclical and financials.

### Evaluation

Baillie Gifford is a long-term investor and concentrates on 3-year plus performance periods rather than 12-month numbers so patience is required during periods of underperformance. The fund is always likely to have a bias towards quality growth names which will influence shorter term performance numbers.

### Application

This fund can be blended with a core UK equity fund due to its highly differentiated composition relative to the benchmark, the FTSE All Share Index.

### Our Opinion

The fund has delivered strong performance since its re-focus into the higher alpha strategy in September 2010. It is a high conviction approach whereby the top 10 names can account for nearly half of the fund. The strength of the investment process and stock picking abilities have been demonstrated by an experienced and stable team.



### Important Notice

This factsheet is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced direct from fund managers and from a number of websites. This information is therefore as current as is available at the time of production.