

Baillie Gifford UK Equity Alpha B Acc

April 2021
Investment Research



Overview

The focus of the fund is on growing the capital value of investments over time through a portfolio of UK equities. Whilst equities can lose money over short to medium time periods, over longer time periods, and particularly over multiple investment cycles, equities, in aggregate, have proved an extremely successful way of accumulating capital.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●			

Square Mile Expected Outcome

We believe that this fund should be able to outperform the FTSE All Share index by a minimum of 2% per annum over rolling five year periods.

Active/Passive: Active	Domicile: United Kingdom
Asset Class: Equity	IA Sector: IA UK All Companies
Launch Date: 07/04/1995	Fund Size (as at 07 Apr 2021): £944.1m
Yield: 0.60%	Distribution Pay Date: Jan 31 (Final), Jul 31
Fund Manager: Gerard Callahan	Ongoing Charge Figure: 0.56%
	Transaction Cost ex Ante: 0.00%



Fund Opinion

The fund is managed with a long-term mindset, with the team looking to identify what a company's earnings may be in five to seven years, rather than focusing on the next quarter's numbers. Thus, we believe that this fund should only be held by those with a similar investment time frame. We believe that the focus on quality and growing businesses ought to produce returns ahead of the market over a reasonable holding period. However, the manager's high conviction approach, more specific investment criteria and limited regard for the benchmark may lead to periods during which performance will struggle versus the wider market. We would also note that the fund has quite a high hurdle rate, in terms of its formal 2% outperformance objective. Indeed, although the fund has outperformed its benchmark for the majority of time in recent years, it has struggled to meet this target, and so its success rate looks low, especially when compared to other quality growth funds in the UK All Companies space.

Nonetheless, we have conviction in the managers' ability to outperform the benchmark over the long term and would reiterate that the Baillie Gifford team members are patient, competent and disciplined investors, who are not overly concerned with short-term market movements; characteristics that they have demonstrated for their many institutional clients over the years. In essence, for those investors who are looking to access some of the UK's highest quality firms with strong growth characteristics, and who are willing to ignore potential periods of underperformance, this fund is well worth considering.

Fund Description

The lead manager on this fund, Gerard Callahan, joined Baillie Gifford in 1991 and became head of the UK Equity team in 1997. Mr Callahan has managed the strategy via institutional mandates since 2000 and this fund since 2010, when the fund's mandate and name were both changed to its current guise. The team is kept purposefully small and is comprised of both fund managers and analysts. In order to encourage active debate, team members are encouraged to be well-informed generalists in terms of their research, and so sector specific research responsibilities are not assigned.

This is a high conviction and concentrated strategy which invests primarily in growing companies and typically holds between 30 and 40 stocks. The manager, and team, take a long-term approach and as such the portfolio's turnover is typically low, at around 10% to 20% per annum. They essentially focus on quality, well-managed companies with long-term growth prospects. They broadly define quality as a company with supportive financial traits such as healthy profit margins, limited debt and high returns; as well as a good management team running the firm in the interests of shareholders. This is an all-cap strategy, meaning that they are relatively agnostic when it comes to the size of the firm in which they invest. They can also take fairly large positions in companies and sectors; which can result in the portfolio looking very different to the FTSE All Share index.

In terms of the investment process, ideas are generated from a number of sources including team research, company meetings, stockbroker research and through interaction with other Baillie Gifford investment teams. From this a 'Priority List' is created which comprises of businesses that have met certain criteria and are worth further review. Each stock is allocated to a member of the team who is responsible for monitoring it. Promising ideas are then analysed on a five-year view with a clear and succinct investment case being made. The proposing analyst will ensure that the team is aware of the risks to the stock's central thesis, and what would or rather should trigger a review. Debate and interaction are integral to the team's process, weekly meetings are held as well as a monthly/bi monthly 'prospects' meeting which encompasses a level of medium-term strategic thinking, macro inputs and new ideas. Although individual team members have separate responsibilities, it is the pooled performance of the team that matters at a remuneration level. There is therefore a strong incentive for each member not to operate in isolation and to ensure suitable investments are being made across the portfolios.

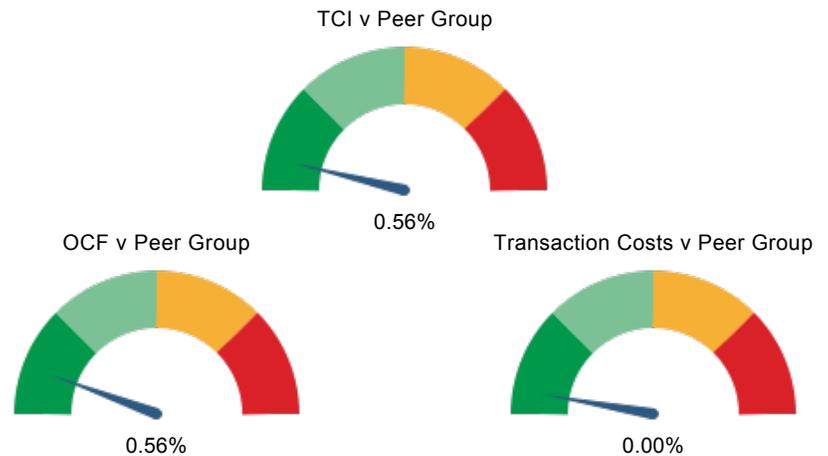
Risk Summary

This fund invests in UK equities and, as such, the main risk is that these, as higher risk assets, can be volatile investments. Moreover, we would note that this is a concentrated, high conviction strategy, operating with little regard as to how its benchmark index is constructed. Indeed, the managers can and will take significant investments in medium and smaller sized companies, which are typically more volatile than their larger peers. Consequently, the fund can operate with higher levels of volatility than both the overall market and its peers and produce a significantly different return profile. It may be better suited, therefore, to investors with longer-term investment horizons, who are not seeking index like returns.

Value for Money

The fund's low annual management charge (AMC) results in its ongoing charge figure (OCF), being far lower than the peer group median, as are the fund's transaction costs. Overall this, in our view, leaves the strategy with a very competitive total cost of investment, when compared to other actively managed funds investing in the UK equity market. We believe that this fund offers reasonable value for money, as it allows investors access to a well-established franchise, managed by high conviction and experienced managers.

In line with the MiFID II regulations, asset management firms are required to disclose all of the costs and charges related to the running and administration of their funds, including items outside of the OCF, such as research costs. Baillie Gifford absorbs all of the costs associated with its research, which should slightly reduce the overall fee paid by investors.



ESG Integration

Company Assessment	0	1	2+	3
Demonstrable steps are being taken to fully integrate ESG factors into all of the company's investment processes.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
ESG factors may be considered by the fund's manager as an input into their analysis but are not a formal part of the investment process.				

Responsible Investing Approach

Exclusion	Sustainability	Impact
□	□	□

Additional Information

Annualised Return	11.22%
Annualised Volatility	21.50%
Max Drawdown	-31.78%
Max Gain	20.34%
Max Loss	-18.79%
Sharpe Ratio	0.51
Sortino Ratio	0.46

(3 years data to last month end unless otherwise stated)

Currency of Share Class

GBP

Fund Price (as at 07 Apr 2021)

858.8 pence

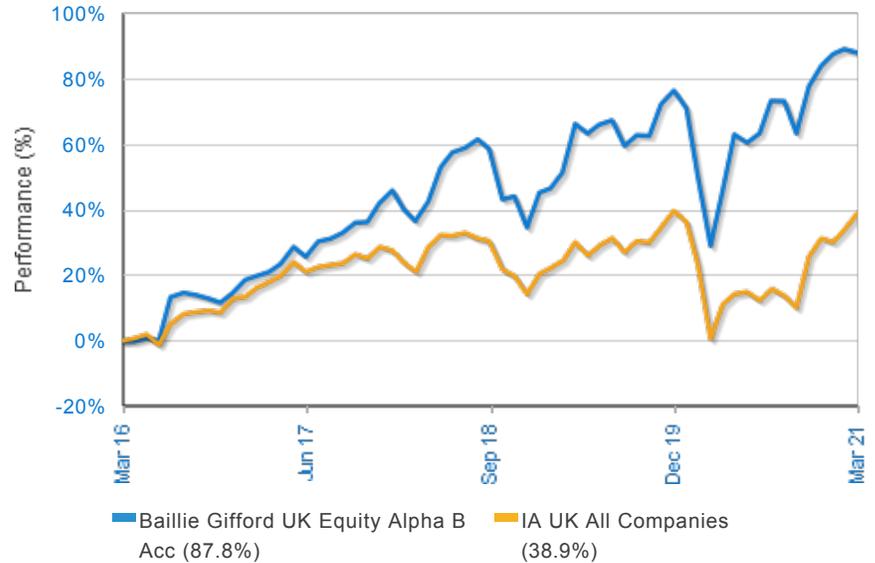
Benchmark

FTSE All Share

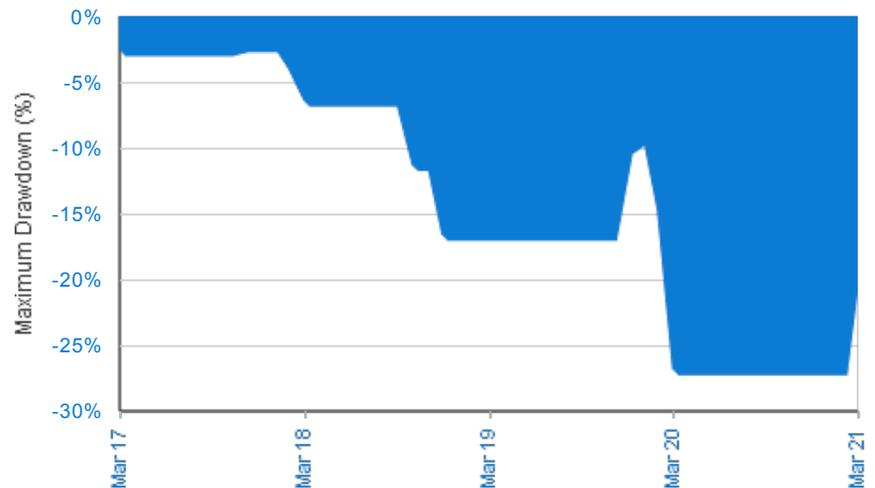
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	45.7	38.0	1
12-24m	-14.8	-19.2	1
24-36m	10.8	2.9	1
36-48m	12.8	2.7	1
48-60m	21.0	17.9	2

Capital Growth



Maximum Drawdown (Rolling 12 Months)



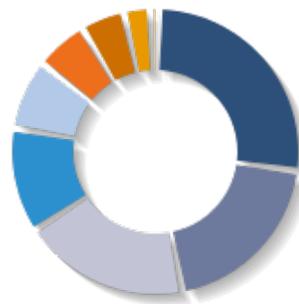
Top Ten Holdings

(Data as at 28 Feb 2021)

Company Name	%
RIGHTMOVE PLC	6.8
OCADO GROUP PLC	6.6
TRAINLINE PLC	5.7
AVEVA GROUP	5.3
AUTO TRADER GROUP PLC	5.2
RENISHAW PLC	5.1
ABCAM	4.8
ASOS PLC	4.0
HOMESERVE	3.8
HARGREAVES LANSDOWN PLC	3.6

Sector Breakdown

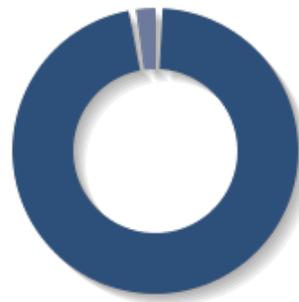
(Data as at 28 Feb 2021)



- Consumer Services (27%)
- Financials (20%)
- Industrials (19%)
- Health Care (12%)
- Basic Materials (8%)
- Consumer Goods (6%)
- Technology (5%)
- Money Market (3%)
- Oil & Gas (1%)

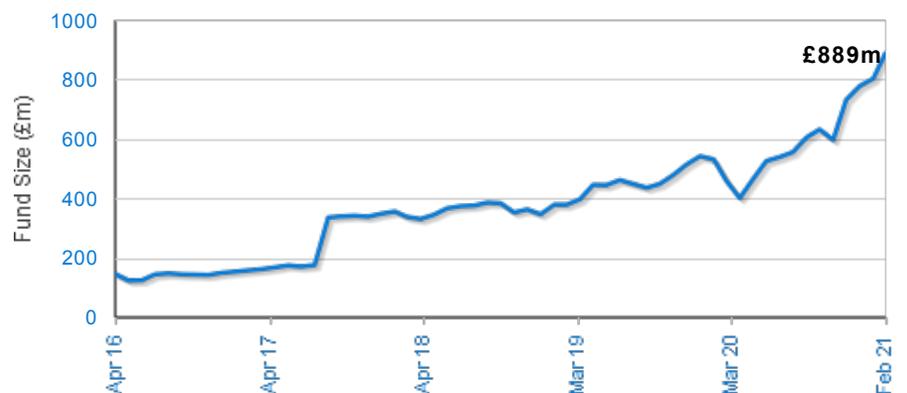
Geographic Breakdown

(Data as at 28 Feb 2021)



- UK (97%)
- Money Market (3%)

Assets Under Management



Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk		●	
Credit Risk			●
Exchange Rate Risk			●
Liquidity Risk			●
Emerging Markets Risk			●
Derivative Risk			●
Manager Risk		●	

Equity Risk

The fund is predominately invested in shares. Shares are volatile investments and this volatility is typically heightened at times of economic stress.

Interest Rate Risk

The fund is an equity fund. Higher interest rates may adversely affect valuations of shares.

Credit Risk

This fund does not have significant exposure to corporate debt.

Exchange Rate Risk

The fund is predominantly invested in domestic assets.

Liquidity Risk

The fund invests in liquid assets and any sale should be possible at close to the prevailing market price.

Emerging Markets Risk

The fund predominantly invests in securities listed by organisations operating in developed markets.

Derivative Risk

The portfolio is predominantly invested in underlying cash securities.

Manager Risk

The manager is seen as an important element in Square Mile's rating of the fund, although potential alternatives may exist elsewhere in the organisation. Square Mile will reappraise the rating if the lead manager were to leave.

FE Risk Rating: 99.00

SRRI: 6

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