

POSITIVE CHANGE IN CHALLENGING TIMES

Catherine Flockhart, Client Service Director



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information about these and other risks of an investment in the fund, see 'Principal Investment Risks' and 'Additional Investment Strategies' in the prospectus. The Baillie Gifford Positive Change Equities Fund seeks capital appreciation with an emphasis on investing in businesses that deliver positive change by contributing towards a more sustainable and inclusive world. For more information about these and other risks of an investment in our mutual funds, see 'Principal Investment Risks' and 'Additional Investment Strategies' in the relevant prospectus.

Baillie Gifford Positive Change Equities Fund Top Ten Holdings as of March 31, 2020

	Holdings	Fund %
1	Dexcom	7.29
2	Tesla Inc	6.61
3	ASML	6.20
4	Illumina	5.75
5	TSMC	5.70
6	M3	5.65
7	Kingspan Group	4.38
8	Umicore	4.22
9	Alphabet	3.73
10	Chr Hansen	3.67

The below stocks mentioned in this article are also held in the Baillie Gifford Positive Change Equities Fund as of March 31, 2020.

	Holdings	Fund %
	Teladoc	3.24
	MercadoLibre	2.95
	Systemex	2.92
	Moderna	2.41
	Deere	2.04
	Ecolab	1.99

It should not be assumed that recommendations/transactions made in the future will be profitable or will equal performance of the securities mentioned. A full list of holdings is available on request. The composition of the fund's holdings is subject to change. Percentages are based on securities at market value.

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APRIL 2020

POSITIVE CHANGE IN CHALLENGING TIMES

BY CATHERINE FLOCKHART

STAYING POSITIVE

Stay Positive. In a time of great uncertainty this is easier said than done. Daily we are faced with personal and professional challenges. We see the ever-rising death toll resulting from coronavirus, we see news reports of makeshift hospitals in developed countries overwhelmed and in disarray, we worry about our families, our parents. At the same time, we are all acutely aware of the economic cost that must be paid to keep the world safe as we stay at home, and we see governments spring into action at a scale barely imaginable but generally derided just six weeks ago. We find ourselves in a situation that is, if not entirely unprecedented, unthinkable to those of us brought up in the post-world war era of relative stability and prosperity. In this situation, it is easy to sink into despair and panic, as many in financial markets have.

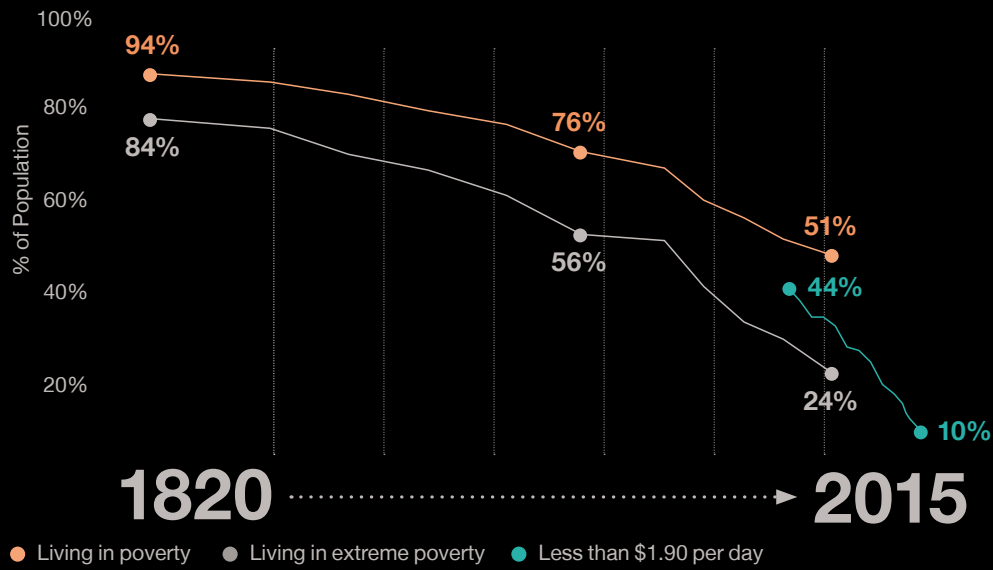
But we stay positive and calm.

We stay positive for good reason. Our experience of investing and thinking about the long term gives us a sense of perspective and reminds us that our optimism will be rewarded in time. Our belief in fundamental human progress is what allows us to invest for a brighter future and to deliver attractive investment returns, even in these challenging times.

When we were refining our investment philosophy for Positive Change in 2016 we laid out a couple of key trends that underpin our optimism – over the past couple of hundred years (as far back as we can find measurement) there has been a massive reduction in the number of people living in poverty, and life expectancy has more than doubled. This progress spans both world wars, a pandemic, the great depression and several financial crises. So we are confident that although progress might have to stay at home for a while, it will return to work.

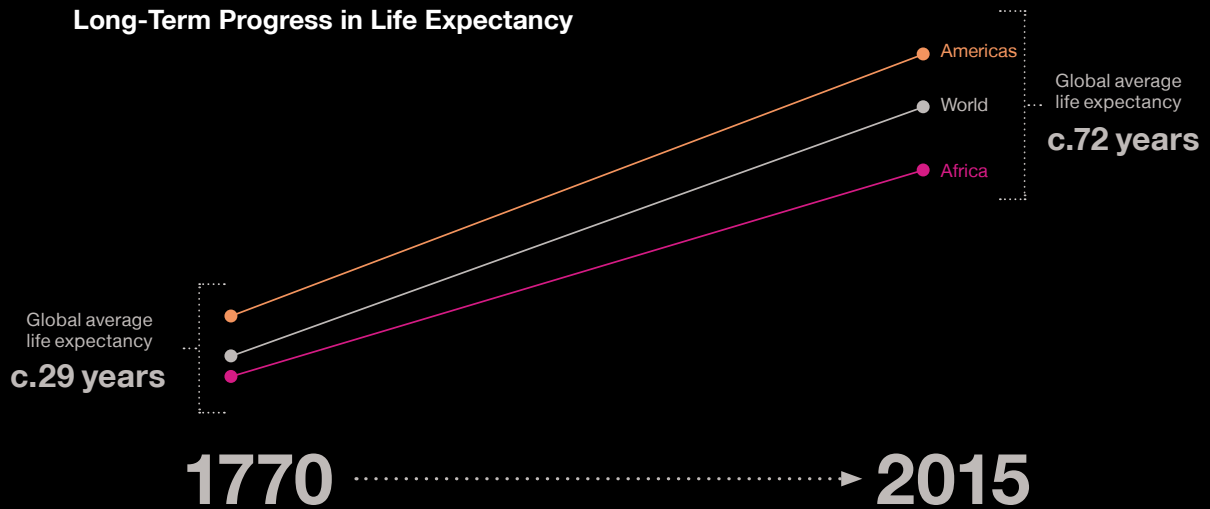
In fact, humanity has demonstrated time and time again its ability to conquer challenges and to move forwards. Our long-term perspective tells us this crisis will be no different. It also tells us that innovation will, as ever, be key to the solution. The industrial revolution and advancements in medical science drove forward progress historically; we think the modern equivalents are powerful technology platforms and innovative healthcare companies (not so different really).

Long-Term Progress in Poverty Reduction



All data are adjusted for inflation over time and for price differences between countries (PPP adjustment).
Source: Our World in Data

Long-Term Progress in Life Expectancy



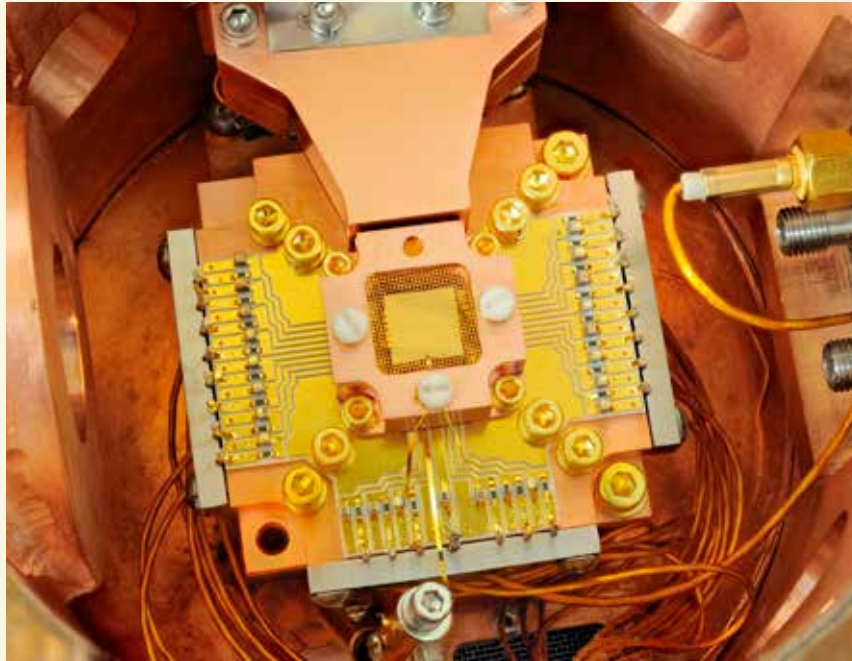
Source: Our World in Data

POSITIVE CONTRIBUTIONS

Companies in our portfolio are demonstrating today how harnessing technology in all of its forms has the potential to make a tremendous positive impact. It has been really buoying to see the contributions towards the pandemic from several companies in our portfolio. At a time of great need, they are rising to the challenge.

Moderna is an innovative biotech company whose shares we purchased at IPO in 2018. The company set up a rapid response team, working non-stop on the virus, and became the first to start trialling a vaccine, just 42 days after the coronavirus genome was first sequenced. Moderna's heavy investment in research and development, and its ability to harness new tools such as cloud computing and machine learning, have enabled this unprecedented speed.





Teladoc, the Telemedicine company, reported a 50% increase in virtual appointments in just one week in March thanks to its ability to provide accessible, affordable and safe consultations to patients primarily in the US. M3, a Japanese medical platform we own, has seen similar trends. Sysmex, the diagnostics company, has developed a diagnostic test for the coronavirus, and is the first to be given approval in its home market, also Japan. Illumina's next generation gene sequencing equipment also allows for virus detection and rapid sequencing. Ecolab's sanitisers, widely used in industrial and institutional settings, are also playing a role.

As well as the companies on the front line, imagine dealing with this pandemic without the information available on Google, or the devices we are all using powered by the chips enabled thanks to ASML and TSMC's relentless focus on more power at a lower cost. It has long been our view that technology will be a key enabler for the global economy and that it is core to positive change, even if it's not easily measurable (the biggest changes rarely are). This is a contention we have at times been challenged on, but the importance of technology is now playing out on a daily basis for all of us, and we think there is more to come than we can yet imagine.

It will be the multifaceted contributions of the companies in our portfolio and many more, together, that will allow us to beat the coronavirus. As we have always said, global challenges are complex. To meet them we need a truly global and holistic mindset.

PURPOSE
COMPLEMENTS
PROFITS

Aside from doing good, we remain confident that our portfolio is positioned to do well. Our focus on quality, long-term growth businesses means the portfolio went into the crisis in a position of strength, with generally strong fundamentals and strong balance sheets. Companies we hold have also been reinvesting far more for growth than the average. This should stand them in good stead for tougher times. Nonetheless, we've reviewed the financial strength of all companies in the portfolio and in the main they stack up well.

Our focus on businesses that are addressing our key global challenges through their core products and services means we have no exposure to areas such as travel and leisure, or oil and gas, which have suffered particularly badly. In essence, owning the solution providers has helped us thus far.

Although investment is never certain, our conviction in our core positioning has, if anything, become clearer. We are taking our time to review whether there are any opportunities to buy companies where we have underappreciated growth, or at more attractive valuations.



MAINTAINING BROAD HORIZONS

Amid the single-issue rolling news coverage, it is all too easy to become blinkered. We are certainly not underestimating the gravity of the current crisis, but we do maintain broad horizons.

According to work carried out by Johns Hopkins University, coronavirus has claimed over 100,000 lives at the time of writing. This is an immense tragedy, but sadly not one of unrivalled scale: the World Health Organisation estimates that 17.9 million people die each year of cardiovascular disease; in 2016, 1.4 million people died of diarrheal diseases (i.e. poverty); 250,000 additional deaths per year are projected between 2030 and 2050 if we fail to address climate change. The broad set of challenges we set out to address with Positive Change persist, as does our faith in humanity's ability to address them.

So, our research effort remains diverse, and our zeal to find great companies that can improve the status quo is stronger than ever. In recent weeks, the team has continued to work on sustainable agriculture, leading to our purchase of Deere, whose precision agriculture offering will be key to helping farmers grow more while minimising their environmental impact. We have also purchased shares in MercadoLibre, the ecommerce platform which is enabling retail efficiencies and providing access to FinTech for businesses and individuals in South America. We have been researching plastics recycling and waste management companies, and medical equipment companies. Our pipeline of ideas remains rich.

STRUCTURAL TRENDS AND A SILVER LINING

In our ongoing quest for ideas for the portfolio, we are also considering the bigger picture, the backdrop against which companies operate. We think there is a chance that this difficult and uncertain time could hasten structural trends that we had already foreseen in the world, forcing behaviour changes and novel solutions to present themselves.

Wider technological adoption appears to be already accelerating. Even the luddites among us are embracing new ways to connect with colleagues, friends and family. We expect we will all continue using Zoom more, and long-distance flights less over the next decade.

For the first time in living memory for most of us, we face a serious curtailment of our everyday liberties. This serves as a stark reminder that governments cannot control nature, and that a lack of respect for the planet can carry consequences. This may shift the mindset with which we address climate change and allow us to embrace some of the consumption habit shifts required to tackle serious global warming.

At a more abstract, but no less significant, level, the impact of individual actions on the collective is being thrown into sharp focus, and physical distance is ironically prompting a closer community connection for many of us. Governments are stepping in at scale. This could underpin a hastening of the economic shifts we already believe in, away from a model of capitalism that enriches the wealthy, towards one that is for the benefit of all: inclusive capitalism.

We certainly don't claim to have all the answers to these topics, and it is far too early to draw definitive conclusions, but we remain confident in our positioning and that we are invested for a more positive future.

Investing for Positive Change is more important and more powerful now than ever.

ABOUT THE AUTHOR



CATHERINE FLOCKHART

Client Service Director

Catherine is a Client Service Director specialising in Positive Change, our listed equity impact strategy. Catherine has been involved with the strategy since its inception and has worked closely with our investment team to develop our philosophy and approach to analysing and reporting on the societal impact of companies held in the portfolio.

Catherine firmly believes in investing for Positive Change. Having started her career in an investment bank during the financial crisis of 2008, Catherine witnessed first-hand the growing disenchantment of society with the finance industry. She feels strongly that finance needs to work for the benefit of all, and that offering investments for the next generation of savers is important.

Prior to joining Baillie Gifford in 2012, Catherine studied English Literature at the University of Edinburgh and joined the Goldman Sachs graduate training programme in London, working in HR.

CURIOUS ABOUT THE WORLD

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