



Baillie Gifford Positive Change Equities Fund

Ticker	BPESX				
Assets	\$113.9 million				
Performance (institutional class shares)	YTD	1 yr.	3 yr.	5 yr.	10 yr.
	4.3%	124%	31.4%	-	-
Performance and asset numbers as of 3/12/2021. Three-year figure is average annual total returns. Sources: Baillie Gifford and Morningstar.					
Top Five Holdings	Tesla Inc.; M3; TSMC; ASML.; MercadoLibre				
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Sector Allocation (as a % of portfolio)

Health Care	34.25	
Consumer Discretionary	17.08	
Information Technology	15.17	
Industrials	10.95	
Materials	9.09	
Financials	4.38	
Communication Services	3.65	
Utilities	2.74	
Consumer Staples	1.48	
Cash	1.20	

As of 12/31/2020. Sources: Baillie Gifford and Morningstar.

AN IMPACTFUL PORTFOLIO

The Baillie Gifford Positive Change Equities Fund has generated monster returns while seeking positive impact.

BY JEFF SCHLEGEL

Baillie Gifford is a British Investment Management firm with early-20th century roots and a 21st century penchant for high-growth stocks. Its Baillie Gifford Positive Change Equities Fund has been turning heads with eye-popping returns – including an 88% gain in 2020 – by investing in growthy, innovative companies like electric vehicle maker Tesla and biotech firm Moderna, which developed one of the Covid-19 vaccines. The fund’s portfolio also includes leading-edge names such as Japan’s M3, creator of a central platform designed to advance global health care; Danish offshore wind power company Ørsted; and ... John Deere?

Why Deere & Co, the venerable maker of iconic green farm tractors that traces its origins to 1837, fits into a fund focused on innovation and social impact speaks to the investment methodology of the seven-member team that runs the fund.

That team comprises five investment managers who parse financial metrics and two corporate governance analysts who evaluate the social impact attributes of each company. It’s an intricate research process that aims to create a portfolio filled with companies thought to have sustainable long-term growth prospects as well as positive impacts on people and the planet. “If you’re investing for impact, you need to have that intent to deliver impact and to be out there trying to find the ideas,” says Kate Fox, an investment manager on the Positive Change Equities Fund and a partner at the Edinburgh, Scotland-based asset manager. “Then you have to report on impact, which is really difficult because we’re investing in companies that are delivering impact in different ways. And it’s difficult because you can’t always easily measure impact.”

Indeed, one of the criticisms of sustainable or impact or environmental, social and governance investing (or whatever moniker one chooses for so-called do-gooder investment approaches) is its lack of quantifiability. It speaks to the nature of trying to balance a company’s financial performance and its ‘impact’ which, depending on the company, can be positive, negative or both.

“We look at impact holistically because there is no perfect company,” Fox explains. Take the case of Alphabet, the parent company of Google and a holding in the Positive Change Equities Fund. Fox says the fund’s investment team believes Google is democratizing access to information through its search engine, as well as via its operating system that enables low-cost mobile devices.

“It’s a company we admire from a product impact perspective,” she notes. “But we look at its potential negatives, too. When we assessed the company, we recognized that they don’t pay their taxes, which could detract from the impact they could deliver.”

Baillie Gifford views paying taxes as a social contract among industry, government and society that helps provide financial resources to improve the commonwealth. Google, along with some other Silicon Valley tech titans, are criticized for using loopholes and foreign tax havens to avoid paying their fair share of income taxes on their billions in profits.

MEASURING IMPACT

The Positive Change Equities Fund includes companies that its investment team believe can deliver positive social change in one of four ways: through social inclusion and education; by serving environmental and resource needs; by aiding health care and quality of life; and by serving what it calls the ‘base of the pyramid,’ in other words, the needs of the world’s poorest people.

To see how companies address these themes, the team uses a methodology where change is mapped out with outcomes shown in relation to each other chronologically. There is a chain of five components showing how the portfolio holdings are delivering.

The first part of the chain is inputs – the resources a company uses such as financial capital or human capital. The second is the company’s activities that use inputs to produce outputs. The third is the outputs themselves – the production or delivery of products or services to beneficiaries. The fourth part of the chain is outcomes – what are the short-term changes as a result of those activities and outputs? And the fifth is impacts – what are the expected system-level changes arising from the company’s activities and outputs?

Because impact-related criteria can vary depending on the company, the team picks one or two of the most relevant factors to a particular company’s business. And because firms can measure and report information differently, the team talks with companies to understand how they compiled their data.

As part of its analysis of impacts, the investment team factors in how each company’s products and services are contributing to one or more of the target areas in the United Nations’ Sustainable development Goals. Each year, the fund managers crunch the numbers and report on the impacts the portfolio – both the individual holdings and the portfolio as a whole – is having on various target areas, whether it’s carbon emissions reduction or the improvement of health care or something else.

“We think reporting this is important because it holds us accountable to that objective, and because investors want to know what impact their capital is having,” Fox says. “What we’re doing at Positive Change is investing in companies whose innovations are providing solutions to global challenges.”

LONG-TERM HORIZON

On the financial side, Fox says the team looks for 30 to 50 companies with significant long-term growth potential that the fund wants to own for the next five to 10 years.

Portfolio Statistics

Number of positions	32
Avg Weighted Mkt Cap	3.95 B
P/E Ratio	38.6
Std Dev Fund/Benchmark	23.15/17.54
Turnover Ratio	36%
Expense Ratio	0.65%

As of 12/31/2020. Standard Deviation as of 2/28/2021. Sources: Baillie Gifford and Morningstar.

“We like to invest in businesses with a great run rate for growth and a competitive advantage and have management teams we trust and admire,” she explains. “What my colleagues are doing on the impact side is looking to understand the link [with U.N. Sustainable development Goals] between the product and the challenge. With Dexcom, it’s a very direct link. It’s different with Alphabet, where there’s an indirect link.”

Dexcom is a San Diego-based company that makes continuous glucose-monitoring devices used by diabetic patients. Fox says the company’s products are displacing the finger-stick tests that are the current standard in glucose monitoring. The company’s competitive edge, she says, is that its devices are less invasive and more convenient because they send readings to a person’s mobile device.

Fox notes that Dexcom is tackling the global challenge posed by diabetes. “It’s a chronic and expensive disease, both for the patient and the health-care system,” she says, adding that Dexcom is addressing U.N. Sustainable development Goal no. 3 – good health and well being.

Meanwhile, Dexcom’s management has made some “really bold investments” in its R&D, manufacturing capacity and marketing, she says. The company is profitable, and Fox believes its products and target market provide a huge run rate for growth.

DEERE AND BEYOND

Sustainable agriculture has been one of the focus areas at the Positive Change Equities Fund.

“We’ve done work on a number of companies in this area, and we’ve also engaged with academic experts to help us understand the challenge and potential solutions,” Fox says.

That led Baillie Gifford to two companies: Deere, which is more than 180 years old, and Beyond Meat, which began operations in 2009. Deere’s attraction is its precision agriculture technology that enables farmers to use less herbicides, she says.

The company’s See & Spray technology can identify what is weed and what is plant before an herbicide is applied. “That can help trim [herbicide] use by up to 80%,” Fox says.

Beyond Meat makes plant-based protein that targets both vegetarians and meat eaters. “Ninety percent of its supermarket customers also buy meat, which shows the company has broad appeal,” she says. “That can be hugely impactful because meat is a very inefficient protein source.”

VALUATIONS

The Positive Change Equities Fund launched in December 2017, and its performance has been spectacular – it logged a 124% gain in the one-year period ended March 12, and

its three-year average annual gain was 31% as it benefited from both its seemingly astute stock picking and from the good times for growth stocks in general since the fund was established.

But that means the fund’s portfolio is quite pricey. According to Morningstar, the fund is substantially more expensive than its world large-cap category average in terms of the price to earnings ratio, as well as price to book, sales and cash flow. Its high valuation metrics and the fund’s focus on growth caused it to slump more than 11% in the month leading up to March 12 as investors rotated from expensive growth stocks to value stocks (as part of the reopening trade) and as fears rose about rising interest rates.

But Fox says the fund’s investment team is comfortable with that. “That’s one of the benefits of being long term and being part of a business that’s owned by the 46 partners,” she explains. “We can make the right investment decisions looking out over long time periods without being held accountable to quarterly performance reports.”

She adds that Baillie Gifford’s take on valuations isn’t focused on what the spot P/E multiple is for a business. The fund is more concerned about what that business might become in five to 10 years and how it will unlock that opportunity. “If you anchor to short-term P/E multiples, then our fund will look more expensive,” Fox says. “But we think there’s a reason for that because these are high-quality growth businesses that will grow for many years to come. And these are companies that will help put us on a more sustainable path.”



Manager Kate Fox **Age** 41

Professional Background Joined Baillie Gifford as an investment management graduate trainee in 2002, and has worked in a handful of different regional teams as well as its global smaller companies department. She is an investment manager at the Positive Change Equities Fund and a partner at the firm.

Outside Interests Her three young children, and when time allows, cooking for friends, walking and reading. When the weather allows, Scottish beach holidays and skiing.

The Positive Change Equities Fund launched in December 2017, and its performance has been spectacular – it logged a 124% gain in the one-year period ended March 12, and its three-year average annual gain was 31%.

The high level of Fund returns achieved in 2020 was in large part due to favourable stock selection in the unusual market conditions caused by the Coronavirus pandemic, rather than market movements. This high level of return is unlikely to be sustained over longer time periods.

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. This information and other information about the Fund can be found in the prospectus and summary prospectus. For a prospectus and summary prospectus, please visit our website at <https://www.bailliegifford.com/en/usa/non-professional-investor/funds/baillie-gifford-positive-change-equities-fund/>. Please carefully read the Fund's prospectus and related documents before investing. Securities are offered through Baillie Gifford Funds Services LLC, an affiliate of Baillie Gifford Overseas Ltd and a member of FINRA.

The Fund's focus on social, environmental or governance (ESG) factors may mean it makes different investments than funds that do not focus on these issues in their investment process. The Fund may not choose to invest in potentially profitable companies or could sell investments based on ESG factors when it might be a financial disadvantage to do so.

AVERAGE WEIGHTED MARKET CAP

The weighted average size of companies represented in the portfolio, denoted by market capitalization.

P/E RATIO

The weighted average ratio of current share price divided by the 12 month forward earnings per share. This represents a measure of valuation levels.

STANDARD DEVIATION

A measure of the volatility of absolute returns. It is a measure of the dispersion of a set of absolute returns from its mean.

TURNOVER RATIO

Turnover is calculated as the smaller figure of either purchases or sales for the month and dividing it by an average fund market value. Annual Turnover is calculated as the sum of the monthly turnover figures for the 12 month period.

Baillie Gifford Funds Services LLC is registered as a broker-dealer with the SEC, a member of FINRA and is an affiliate of Baillie Gifford Overseas Limited.

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. The most significant risks of an investment in the Baillie Gifford Positive Change Equities Fund are Investment Style Risk, Growth Stock Risk, Long-Term Investment Strategy Risk, Non-Diversification Risk and Impact Risk. The Fund is managed on a bottom up basis and stock selection is likely to be the main driver of investment returns. Returns are unlikely to track the movements of the benchmark. The prices of growth stocks can be based largely on expectations of future earnings and can decline significantly in reaction to negative news. The Fund is managed on a long-term outlook, meaning that the Fund managers look for investments that they think will make returns over a number of years, rather than over shorter time periods. The Fund may have a smaller number of holdings with larger positions in each relative to other mutual funds. In some circumstances, the Fund's positive change objectives set by the manager for each holding may not be met. Some holdings may end up having a negative social, environmental or governance impact. Other Fund risks include: Asia Risk, China Risk, Conflicts of Interest Risk, Currency Risk, Emerging Markets Risk, Equity Securities Risk, Focused Investment Risk, Frontier Markets Risk, Information Technology Risk, IPO Risk, Japan Risk, Large Capitalization Securities Risk, Liquidity Risk, Market Disruption and Geopolitical Risk, Market Risk, New and Smaller-Sized Funds Risk, Non-U.S. Investment Risk, Service Provider Risk, Settlement Risk, Small-and Medium Capitalization Securities Risk, Socially Responsible Investing Risk, Valuation Risk.

The Fund is distributed by Baillie Gifford Funds Services, LLC.

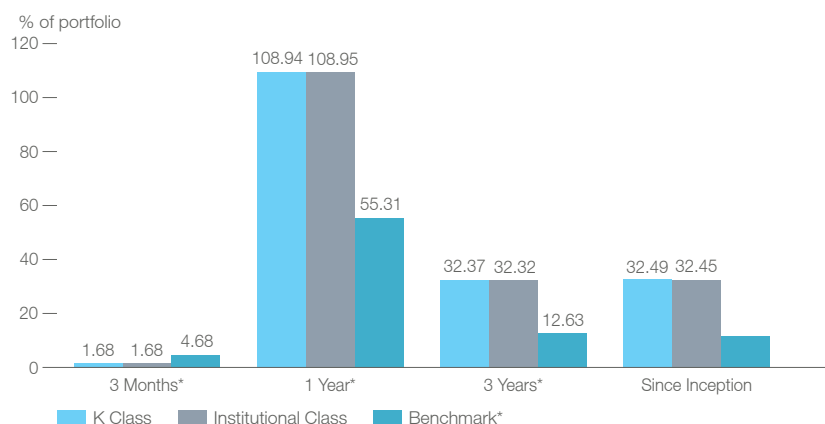
The Baillie Gifford Positive Change Equities Fund Top Ten Holdings

Sedol	ISIN	Company	Country	Holding	Holdings				Fund %	
					Asset Price	Currency	Asset Type	Market Value (USD)	Fund %	
1	B616C79	US88160R1014	Tesla Inc	United States	14,915	667.93	USD	Equity	9962175.95	8.26
2	B929F46	NL0010273215	ASML	Netherlands	12,996	517.00	EUR	Equity	7896757.00	6.55
3	6889106	TW000230008	TSMC	Taiwan	370,000	587.00	TWD	Equity	7611887.99	6.31
4	BGSXTS3	US60770K1079	Moderna	United States	50,878	130.95	USD	Equity	6662474.10	5.52
5	B23X1H3	US58733R1023	MercadoLibre	Brazil	4,295	1472.14	USD	Equity	6322841.30	5.24
6	2613990	US4523271090	illumina	United States	13,716	384.06	USD	Equity	5267766.96	4.37
7	B02K2M3	JP3435750009	M3	Japan	70,900	7571.00	JPY	Equity	485772.85	4.03
8	B0796X4	US2521311074	Dexcom	United States	11,923	369.39	USD	Equity	4285006.97	3.55
9		Cash and Deposits	International	4,197,181	0.00	USD	Equity	4197181.11	3.48	
10	BKS3RS7	US88035U1097	10x Genomics	United States	21,835	181.00	USD	Equity	3952135.00	3.28
Total									50.8%	

Data as of March 31, 2021.

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.

Fund Performance as of March 31 2021



Gross Expense Ratio	
Share Class – K	1.63%
Share Class – institutional	1.63%
Net Expense Ratio	
Share Class – K	0.65%
Share Class – institutional	0.65%

Source: Baillie Gifford & Co, Bank of New York Mellon and MSCI. Share Class launch date: December 14, 2017. NAV returns in US dollars. *Not annualized. **MSCI ACWI Index.

The performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end performance please visit the Fund’s website at bailliegifford.com/usmutualfunds

The Baillie Gifford Fund’s performance shown assumes reinvestment of dividend and capital gain distributions and is net of management fees and expenses. From time to time, certain fees and/or expenses have been voluntarily or contractually waived or reimbursed, which has resulted in higher returns. Without these waivers or reimbursements, the returns would have been lower. Voluntary waivers or reimbursements may be applied or discontinued at any time without notice. Only the Board of Trustees may modify or terminate contractual fee waivers or expense reimbursements. All fees are described in the Fund’s prospectus.

Expense Ratios: All mutual funds have expense ratios which represent what shareholders pay for operating expenses and management fees. Expense ratios are expressed as an annualized percentage of a fund's average net assets paid out in expenses. Expense ratio information is as of the Fund's current prospectus, as revised and supplemented from time to time. The net expense ratios for this fund are contractually capped (excluding taxes, sub-accounting expenses and extraordinary expenses) through April 30, 2021.

The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance in the global developed and emerging markets, excluding the United States. This unmanaged index does not reflect fees and expenses and is not available for direct investment. The Fund is more concentrated than the MSCI ACWI Index.

