

Reflections

October 2021



Below are some recent thoughts from Mark Urquhart on how the Long Term Global Growth team will continue to find great growth companies in the next ten years. The text is an extract from a recent presentation where Gemma Barkhuizen also discusses Beyond Meat; Robert Wilson explains the investment case behind Coupang before Michael Pye considers how we think about the companies' societal impact in the portfolio.

In many ways, the pandemic was a fantastic experiment in uncertainty. No one saw it coming despite scientists warning it was bound to happen. It was a shock to the system. As well as the tragic human cost, we saw huge adaptation and change in every facet of life: shopping, media, travel, communication.

It's certainly accelerated many of the changes that we'd already been seeing – and investing in. But when we talk about what we look for in companies, what we're looking for in our investments, while the pandemic changed everything in one sense, it changed nothing in another. The facets that we look for in LTGG, the things that make great companies and terrific investments, remain exactly the same.

The first thing to say about an LTGG company is that we're looking for an extraordinary opportunity. We want companies that can grow to multiples of their current size. We're not interested in GDP growers or things that can grow at 5, 6, 7, 8 per cent. We think companies can exploit the changes that

have occurred in the global economy in the last 20 years, the ability to scale, the ability to disrupt huge industries and grow rapidly to be multiples of their current size. And that's hugely exciting for growth investors. The second feature is the longevity of the growth opportunity and the competitive advantage within that opportunity.

It's no good having 'fireworks' companies that fizzle for a couple of years then disappear, either because the opportunity wasn't really that big or because they can't sustain their advantage. We're looking to invest in those companies that have a brand, have a way of getting to consumers, have a network effect, which can provide that defensive moat for many, many years. And that leads to the third one, those factors often flow from superb people.



We're looking for visionaries. We're looking for the entrepreneurs of tomorrow, for the risk-takers, for the mavericks. Not for the people who just want to be in the executive corner office for three to five years. People who are passionate and are intrinsically motivated, stay at their companies for 20, 25, 30 years because they want to make a difference. The fourth factor is always important and takes us back to reality: a long-term path to profitability.

It's not enough just to have a company growing its top line at a fantastic rate. We want to see, over the course of our ownership, progress towards higher margins, higher cash flows, higher returns, because that's what will drive the share price over multiple years. The fifth and final one, one that has definitely increased in importance over the years I've been involved with LTGG, is looking at companies through the lens of their role in society.

What impact does this company make? How is it contributing? How is that changing? But the big change from my point of view is that this factor could be a real competitive advantage over the next decades and beyond. Companies are addressing some of the huge questions facing the environment and acting in a socially responsible way. We think that will turn into a competitive advantage for those companies, which is hugely exciting.

The full audio and transcript of the presentation can be accessed on our strategy microsite at ltgg.bailieghifford.com, under the insights section of 'What We Think', titled 'Logic of Optimism'.

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Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com