

Baillie Gifford™

International Growth

Philosophy and Process



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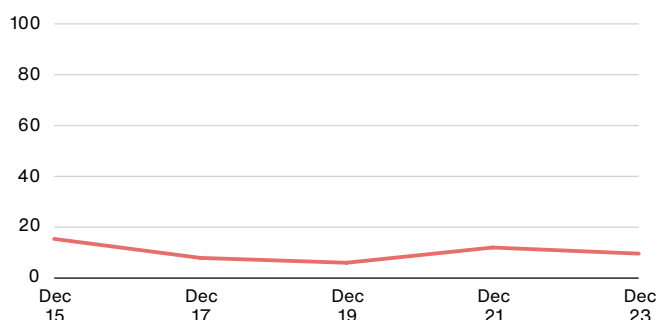
Philosophy

We have a simple, enduring philosophy built upon three core beliefs:

Patient ownership

We see ourselves as long-term owners of companies on behalf of our clients, with all the attendant behaviours that implies. Our portfolio turnover is low, typically 10–15%.

Consistently low portfolio turnover



Source: Baillie Gifford & Co, MSCI.
Rolling 12 month turnover (31/12/2015-31/12/2023) based on a representative International Growth portfolio.

We take our governance responsibilities seriously and have a clear bias to back the judgement of the people managing the companies in which we invest. Once selected for the portfolio, we do not sell shares lightly. We understand the importance of culture, ignoring short-term noise, and acting as a responsible owner.

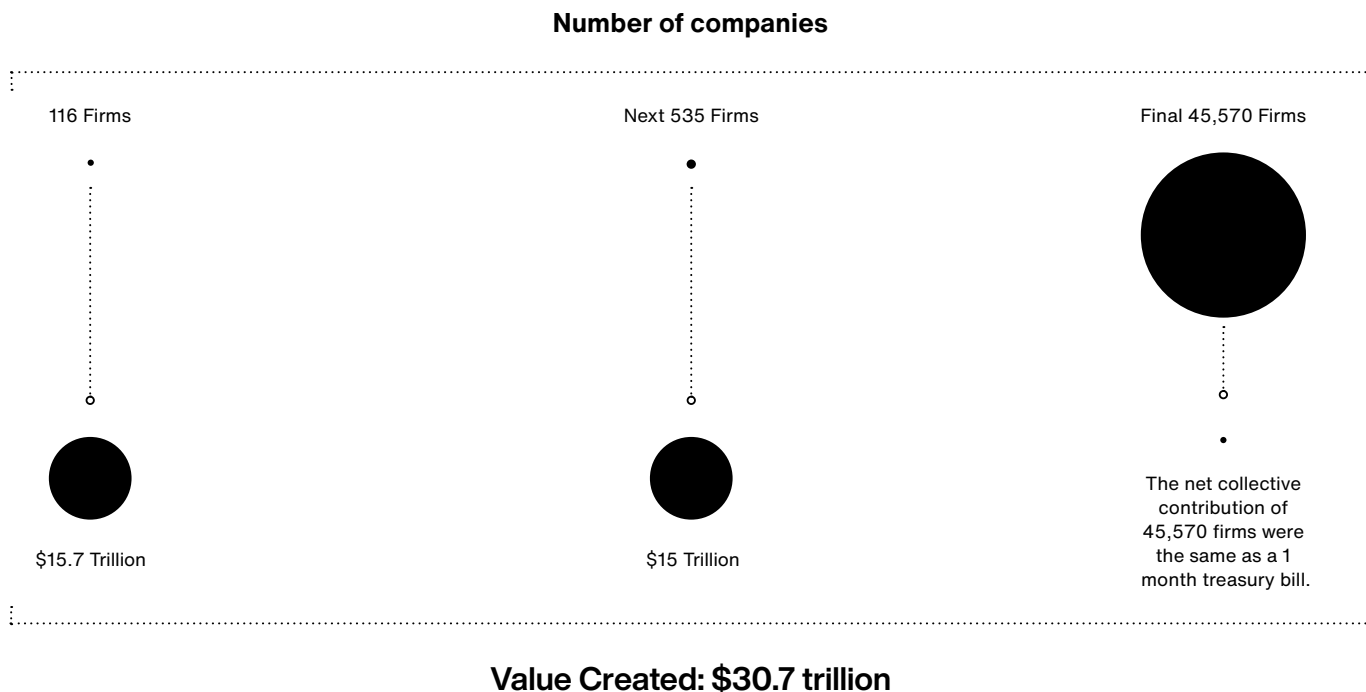
Exceptional companies

We know from academic research and our own experience that equity returns are driven by a small number of exceptional companies. They are far from normally distributed. Our investment process is designed to identify these rare businesses, and own them in size for the long term. This is primarily a creative activity. The way we recruit and train people helps us think in ways that are very different from most financial market participants. We focus on what could go right, in order to make the skewness of equity market returns work in our clients' favour. We embrace uncertainty, and believe change is the norm.

Growth investing

We are interested in two types of growth companies: those that are able to grow very rapidly, and those with durable growth prospects. In each case we expect a holding to deliver substantial upside over the long term. We believe that markets fail to appreciate both extreme growth and the impact of compounding over time. We maintain this committed growth style through market cycles. We aim to mitigate our clients' risk by increasing their exposure to disruptive growth companies, to set against the considerable market weight of more mature companies that are vulnerable to structural change.

Total wealth created by all listed international stocks (1990–2020)



Bessembinder H., Chen TF., Choi G., John Wei. Long-term shareholder returns: Evidence from 64,000 global stocks (August 2021). The first author acknowledges financial support from Baillie Gifford & Company. The data is an international subset of the global data set used in the above paper and includes 46,221 CRSP common stocks from January 1990 to December 2020. In cases where stocks list or delist within a calendar period the return is computed for the portion of the period where data is available. Due to dual share classes; dollar wealth is assessed at the company level. The evidence includes 46,221 non-US firms, of which 19,690 (42.6%) created positive wealth over their lifetimes. The top 651 firms (1.4%) created wealth equal to the total net wealth creation of all 46,221 firms. The remaining 19,039 wealth creating firms contribute enough to just offset the wealth destruction of 26,531 companies (57.4%).

We have identified several trends that we expect to be long-lasting and of huge significance to our clients, and to the companies in which we invest on their behalf.

The transformational power of technology

We are adherents of Schumpeter’s model of creative destruction, in which new companies emerge and destroy existing industries while creating great opportunities of their own. We’re not technoutopians, blind to the impact of new technologies, but we believe that technology in its many forms has been far more a force for good than is sometimes portrayed. We are at a point where the confluence of several technological streams offers the possibility of further transformational change in areas including healthcare, energy, transport and finance.

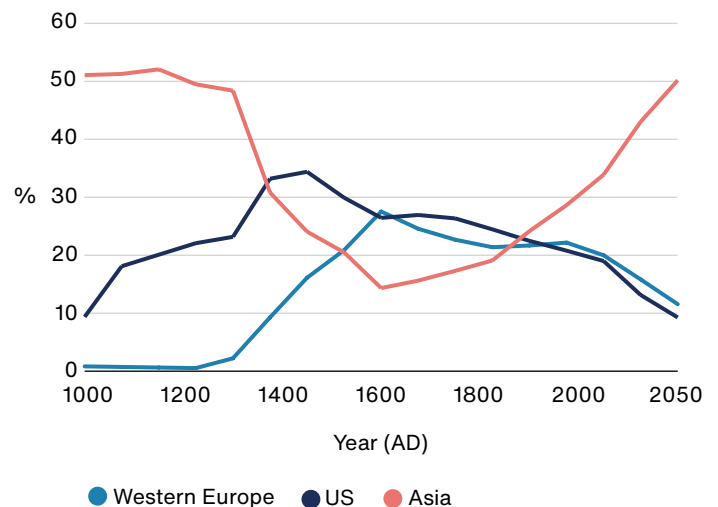
The Asian Century

The Asian Century refers to the dominant role Asian nations are expected to play in the 21st century. Between China, India and South East Asia, lives around half of the world’s population, many of whom are entering the consumer class. Asia is undergoing a significant economic transformation, shifting from the West’s manufacturing hub to an innovation leader. This will present challenges to the established world order, not just in economic terms but culturally, technologically, and politically. It will also present significant opportunities for international investors that we will eagerly explore for our clients. Our exposure to The Asian Century comprises domestic companies and those for which growth in Asia forms a significant part of our investment case.

Change

Change is constant, and constantly under-estimated. Change comes in two forms. There’s the incremental sort, where things move in an almost imperceptible manner but where over time the compounding effect of these small increments adds up to a major shift. Then there’s sudden, discontinuous change. Human beings adapt so quickly to the new environment that it can be difficult to appreciate how far things have come. And it can be equally difficult to imagine that further radical change will happen. We analyse a range of potential outcomes for each investment, focusing on the positive returns from unanticipated change.

Share of world GDP, purchasing power parity basis



Actuals to 2010 (source: Angus Maddison data base, Economist Intelligence Unit); 2030 and 2050 are EIU and author forecasts.

Process

The International Growth Team's process is designed to identify stocks with exceptional upside potential, and own them for the long term.

Our process is both patient, and consistent, providing the foundation for high conviction, bottom-up, stock picking.

Our idea generation process harnesses a diverse array of information sources. We cast the net wide in our search for new insights, not only meeting management and reading the standard discourse on companies, but also speaking with academics and industry experts, or commissioning specific pieces of investigative research. We take forward ideas by writing our own long-form research pieces, examining all investments against a consistent framework to test the durability of the investment thesis.

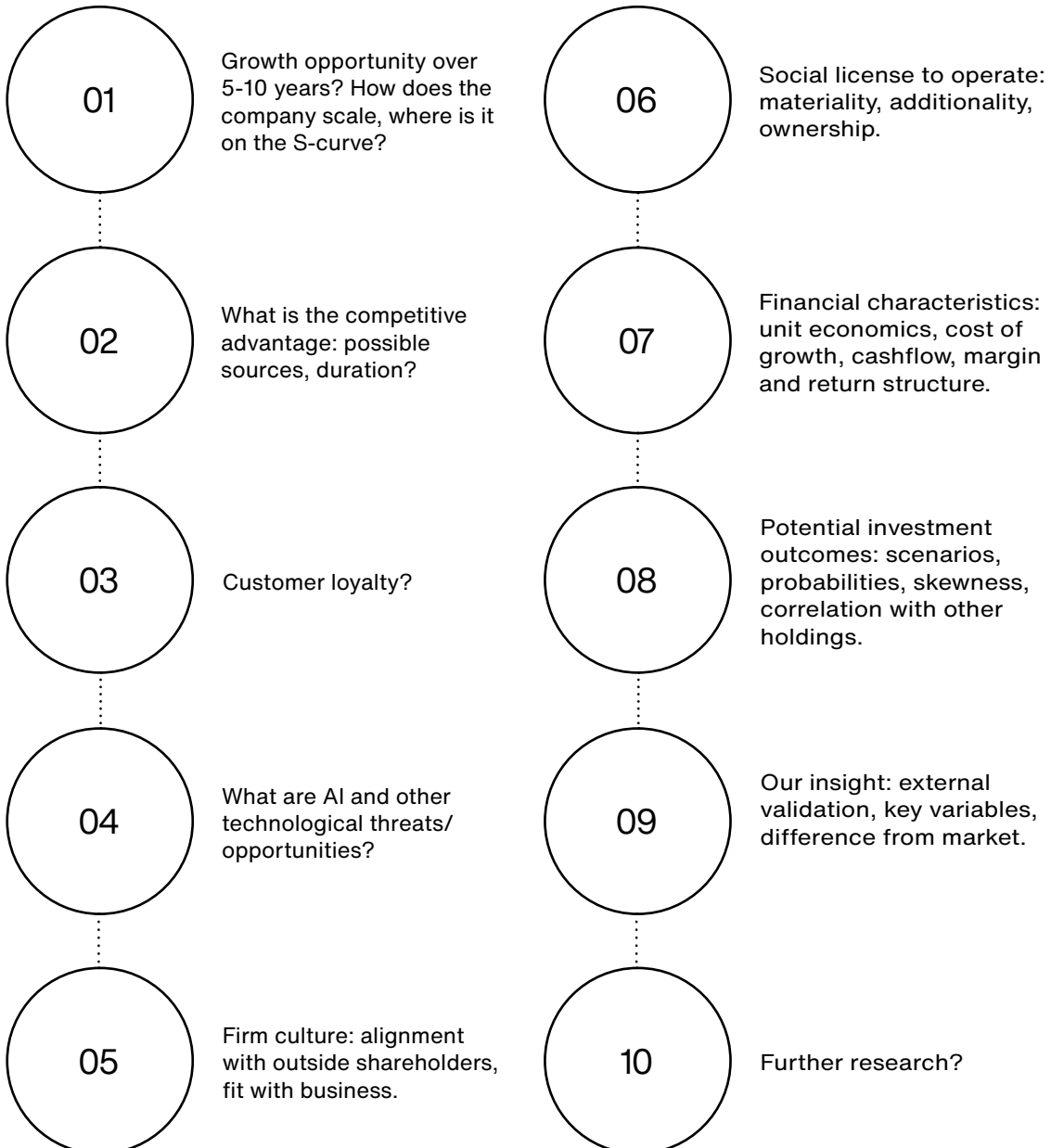
We use a ten question framework, as detailed on page six, to analyse each potential or existing holding in a consistent way. First, we consider the intrinsic characteristics of the business, particularly its growth potential, competitive advantage, and management approach. If the company performs well against these metrics, we go on to the next stage and consider the relationship of the company with key stakeholders such as employees, customers, and regulators. We believe a long-term holding cannot succeed if it has significant negative externalities.

Finally we assess the range of potential returns from an investment, using scenario analysis to explore the scale and probability of different outcomes.

Our focus is on the upside scenario, and our ambition is to identify outlier companies that have the potential for significant growth. We will take small initial positions, around 0.5%, in companies with substantial upside potential and moderate chance of success. We build larger positions as our assessment of the probability of success increases. We run our winners.

We monitor holdings on a regular basis and do not adjust the portfolio based on top-down considerations or short-term fluctuations. We will also add to holdings with weaker share prices over the short term assuming the long-term investment thesis is still intact. Once the decision is made to purchase a holding, the position size will reflect our view of the stock's potential upside and the probability we attach to this, rather than market capitalization or other index-based metrics. We tend to start with small positions (c. 0.5%) and subsequently add to the holding over time where we see the company developing in line with our investment thesis and our conviction grows.

10 question framework



Risk management

We consider three aspects of risk within our investment process:

Fundamental risk

Our investment management philosophy is to buy shares in successful, growing businesses which enjoy sustainable competitive advantages in their markets. The key risk to this philosophy would be inadequate analysis of the fundamentals, leading to bad investment decisions and poor performance. To reduce this risk we continuously re-examine the fundamental performance of the companies in which we invest and the expectations upon which our investment decisions are based.

Portfolio risk

At the overall portfolio level, we employ three measures of risk control: diversification guidelines, quantitative analysis of potential correlations, and qualitative assessment of thematic exposure.

Diversification guidelines

The portfolio parameters and diversification guidelines were devised by the Portfolio Construction Group (PCG) as part of the development of the strategy. This development work was conducted in conjunction with and ultimately approved by the Equity Investment Risk Committees and the Investment Risk, Analytics and Research Department.

Our independent Investment Risk, Analytics and Research Department also performs ongoing monitoring of these guidelines on the portfolio to ensure the integrity of the philosophy and that the portfolio characteristics are consistent with that

approach.

Our diversification guidelines are;

- Minimum 50 holdings
- Maximum absolute holding size of 8%
- Minimum 6 countries, with at least 5% in each
- Minimum 6 sectors, with at least 5% in each

Portfolio insights

We recognize that there is a danger that too many ideas might coincide, leaving future portfolio returns excessively dependent on one or two factors. To mitigate thematic risk the PCG reviews the key factors that could drive the share prices of our holdings. We call these our portfolio insights. This inherently subjective exercise helps the PCG to recognize and manage portfolio exposure to different future business conditions and to assess the real economic risks and opportunities associated with the stocks in the portfolio.

Trading risk

Trading is the responsibility of our dedicated Trading Team, which ensures the separation of duties from our investment managers. Our proprietary restrictions system is designed to prevent inappropriate transactions before trading takes place. This restriction system also helps to avoid excessive concentration of risk by identifying any stock, industry or country exposures that breach our diversification guidelines.

Competitive advantages

We believe that the following factors combine to produce a highly differentiated strategy.

Recruitment and training

We recruit people who typically have expertise in an academic field rather than a financial background, but who are curious about the world and interested in researching new ideas, and in self-improvement. We then train new starts to the required level of financial literacy. Cognitive diversity is an important component of teamwork, and we aim to blend different types of individuals in teams.

Research

We are searching for exceptional companies. In order to find them, we need to think with imagination and creativity. Focus on the potential for things to go right rather than wrong, and always have a long-term perspective. We marry this creative, upside-focused thinking with thoughtful and rigorous business, and financial analysis to better understand the probability, and possible scale of particular outcomes.

Insight and information sources

If our research leads us down the same channels as the rest of the industry, then all we are doing is increasing the chances of delivering the same results as the rest of the industry. Consequently, we eschew routine information sources and traditional sell-side analysis. Instead, we place greater emphasis on conversations with company management (in private and public markets), authors, industry experts and academics who can help us develop our view of the world and how it is changing. We have built numerous formal relationships with academics and universities, which helps inform our long-term thinking about investment opportunities.

Portfolio construction

In order to generate strong performance our portfolios must differ from their benchmarks. We largely ignore the index, and active share in the International Growth Strategy has been consistently very high. Portfolios have meaningful exposure to companies that themselves are managed for the long term. They often have significant family, founder or foundation influence, are at the forefront of technological change or are geared toward the increase in Asian GDP.

Consistency

The International Growth Strategy has been in existence since 2003. While our investment thinking and portfolios have evolved over that time, we have always been long-term, active, growth investors. Our philosophy has been applied consistently since inception.

Client engagement

We hope to develop strong and enduring relationships with clients. We are transparent about our aims and objectives and their associated challenges. We ask our clients to accept the inevitability of periods of short-term underperformance and try to be clear in explaining this. We aim to understand their interests and concerns and try to help wherever possible.

People

Our team has considerable experience working together, and is incentivised by collective results. We back individual conviction for new ideas, and take collective responsibility for the whole portfolio.

The PCG is responsible for all aspects of the strategy.

The PCG draws on the research conducted by all of Baillie Gifford's investment teams, and also has its own dedicated research desk to pursue and develop ideas of particular interest. It is the responsibility of the PCG members to identify and bring forward ideas from these streams of research.

The PCG meets regularly to discuss the buy and sell ideas of its members, and their level of conviction in current holdings.

This process encourages portfolio integration and allows us to allocate funds to the most attractive stocks regardless of their nationality or sector. It also integrates client requirements such as risk tolerance and investment restrictions into the construction of the portfolio.

The PCG encourages its members to express their individual convictions about stocks and seeks to support them whenever appropriate. The group takes collective responsibility for the portfolio and supports each other through the inevitable pressures of bottom up stock picking.

We back individual conviction for new ideas, and take collective responsibility for the whole portfolio



Tom Coutts*
Chair

Tom joined Baillie Gifford in 1999 and became a partner in 2014. He has been a member of the International Growth Portfolio Construction Group since 2008 and took over as chair in July 2019. He previously spent time in our UK and European equities teams, including six years as head of the European Team up to 2017. He also spent three years as our chief of investment staff. Tom graduated with a BA in Modern Languages in 1994.



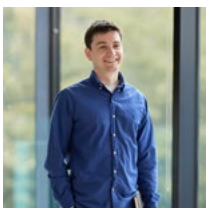
Lawrence Burns*
Deputy Chair

Lawrence joined Baillie Gifford in 2009 and became a partner in 2020. He has been a member of the International Growth Portfolio Construction Group since 2012 and is co-manager of the International Concentrated Growth and Global Outliers strategies. He has been deputy manager of the Scottish Mortgage Investment Trust since 2021. He has also worked in the Emerging Markets and UK equities teams. Lawrence graduated BA in Geography from the University of Cambridge in 2009.



Julia Angeles*
Investment Manager

Julia joined Baillie Gifford in 2008 and became a partner in 2022. Julia has been a member of the International Growth Portfolio Construction Group since 2017 and she is an investment manager on our Health Innovation Strategy, which she co-founded in 2018. Julia previously worked as a management consultant at McKinsey & Company, advising firms in Denmark, Russia and Hungary. She obtained a BSc in 1999, an MSc in 2001 and a PhD in 2005 in Economics from the University of Aarhus, Denmark. She is fluent in Russian and Danish.



Robert Wilson
Investment Manager

Robert joined Baillie Gifford in 2016 and has been a member of the International Growth Portfolio Construction Group since 2024. Robert was previously a decision maker on Baillie Gifford's Long Term Global Growth Strategy from 2021 to 2023 before joining International Growth. He has also worked on our US, European, and Multi-Asset strategies. Robert is a CFA Charterholder. He graduated MA (Hons) in Philosophy from the University of Cambridge before winning a Mellon Fellowship at Yale in 2015.

* Partner



Brian Lum
Investment Manager

Brian joined Baillie Gifford in 2006. He is head of the Smaller Companies Team and lead investment manager of the International Smaller Companies Strategy. He has been a member of the International Growth Portfolio Construction Group since 2015. He is a CFA Charterholder and graduated with an MSc and BA (Hons) in Physics from the University of Cambridge in 2006.



Nick Thomas*
Client Relationship
Director

Nick has been a member of the International Growth Portfolio Construction Group since 2003. He is the head of our Clients Department, which is responsible for servicing our global client base. Nick previously worked as an investment manager in the Developed Asia Equity Team before transferring to the Clients Department in 2009. Nick joined Baillie Gifford in 1998 and became a partner in 2010. He is a CFA Charterholder and graduated BA in Classics from the University of Cambridge in 1998.



David Salter*
Client Relationship
Director

David joined Baillie Gifford in 2001 and became a partner in 2011. David has been a member of the International Growth Portfolio Construction Group since 2007. He is a director in the Clients Department, responsible for servicing North American clients. Prior to joining Baillie Gifford, David had four years' investment and finance experience. David graduated BA (Hons) in Commerce from Edinburgh Napier University in 1997.

* Partner

Baillie Gifford

Clients

We are immensely proud of our supportive client base. Without them, our business could not exist.

Our primary goal is to build long-term relationships with aligned, like minded, clients. Our longest client relationship dates back to the early 1900s.

A core principle we have always upheld is prioritising our clients' interests above the firm's. In an industry that often puts financial gain over client outcomes, this focus is crucial. We aspire to be seen as more than merely the 'hired help', and aim to be recognised as a trusted, long-term partner, who can be relied on to give honest and objective advice at all times.

We are research-driven, patient and prepared to stand apart from the crowd. And because we're an independent partnership without outside shareholders, the long-term goals of our clients are genuinely our priority.

Partnership

Stability matters.

Since its inception in 1908, Baillie Gifford has proudly remained a private partnership. We have no intention of changing this. We have never had a merger or made an acquisition, nor do we seek to in the future. This is a rare level of stability in financial services.

All of our partners work within the firm which provides a unique level of alignment between them as owners, and our clients. This is a key differentiator in comparison to a lot of our peers.

Focus

We have a clear unity of purpose – excellent long-term investment returns and unparalleled client service. Our interests and long-term objectives are completely aligned with those of our clients.

We are not short-term speculators, rather we deploy client's capital to run truly active portfolios that give exposure to exciting and lasting growth companies. We would argue that it is visionary entrepreneurs and company leaders that generate long-term profits and share price increases, not stock markets or indices.

When active management is done well it can add material value over the long term. We need to be willing to take a differentiated view. This is not easy. It requires dedication, independent thought and a long-term perspective. Our whole firm is built around this, and we will always remain resolutely investment and client outcome driven in our outlook.



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