

Philosophy and Process



Global Core

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Introduction

Baillie Gifford's Global Core Strategy provides investors with access to the best regional equity investment ideas at Baillie Gifford. The flexibility of our approach means we can use these building blocks to manage a portfolio in line with your bespoke asset allocation requirements. With long term, active growth investing is at the core of our process, stock picking is the main driver of returns over the longer term.



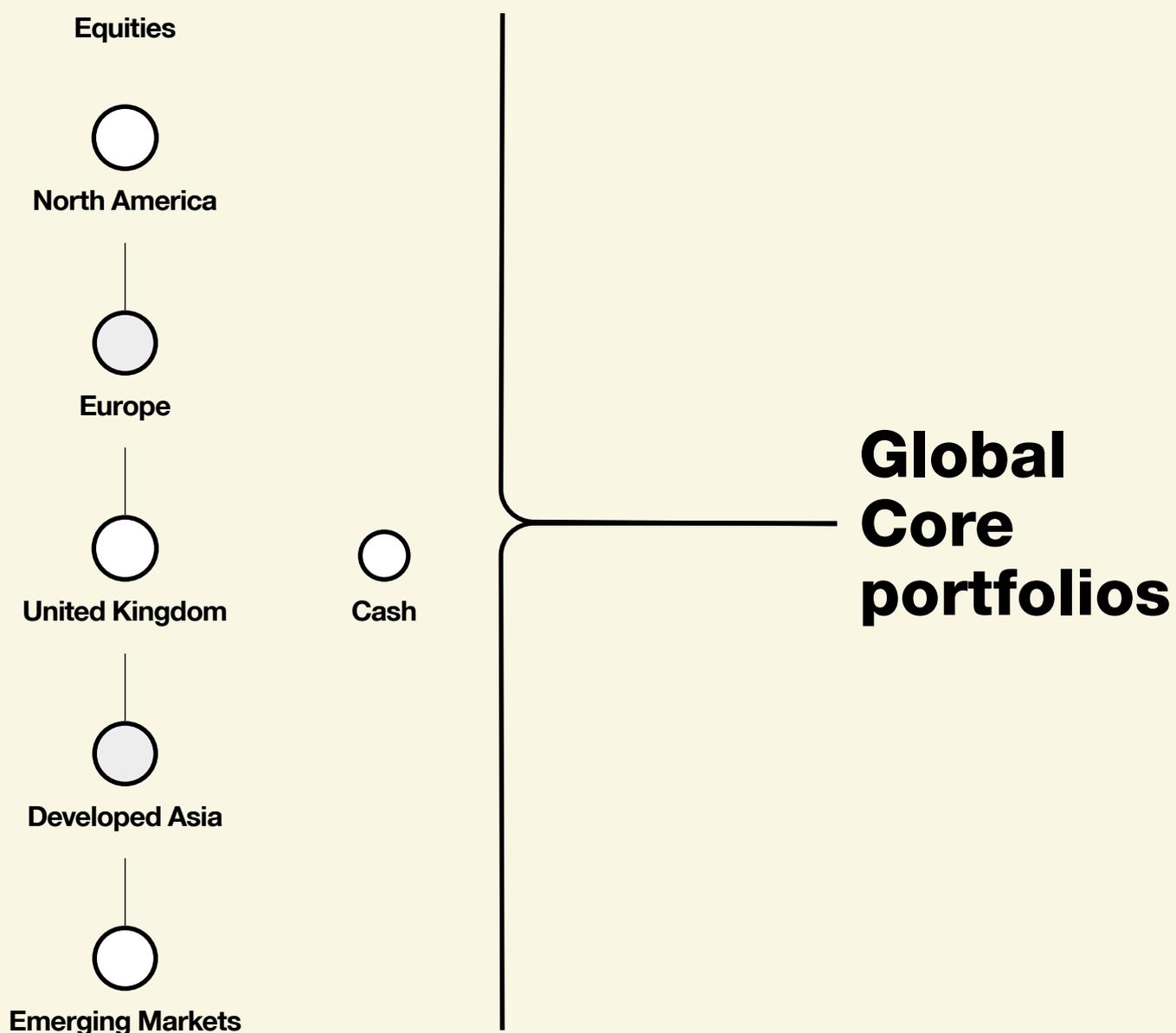
Key features

A long-term perspective, resulting in low portfolio turnover

Active stock-picking supported by in-depth fundamental analysis

Asset allocation determined by client requirements

Baillie Gifford's best regional equity investment ideas



Flexible strategic regional asset allocation

Why invest in the Global Core strategy?



Investing in growth businesses to grow returns

The Strategy's philosophy is to add value through genuinely long-term, active management.

We are bottom-up, growth-orientated, long-term investors. We back our judgment, running a concentrated portfolio with low turnover. We aim to add value through the use of our own fundamental research, prioritising the selection of innovative, growing business rather than trying to second guess short-term macroeconomic developments or trends.

The result is a portfolio that is well-placed to deliver meaningful, long-term returns.

Flexible — Meeting your bespoke requirements

The Global Core Strategy brings together the stock-picking expertise of Baillie Gifford's regional equity investment teams in a portfolio that is managed to your bespoke asset allocation requirements or specific guideline requirements. We are able to do this by combining our specialist regional equity teams' autonomously managed portfolios within specific guidelines to emphasise, de-emphasise or exclude regions as necessary. Our regional equity teams cover the UK, Europe, North America, Developed Asia and are also happy to accommodate bespoke stock restrictions therein. We have been running Global Core portfolios in this way for nearly two decades.



Strategy characteristics and facts

Inception date:	2004
Style:	Growth
Holdings:	Typically around 100-150 stocks ¹
Asset classes/Benchmark:	Currently Developed Markets equities only (MSCI / FTSE Developed Markets Indices)
Time Horizon:	3 years, i.e. stock turnover around 20% per annum or less
Performance target:	+1-2% p.a. relative to MSCI World or FTSE World Benchmark over rolling 3-year period and longer
Segregated fee scale:	First US\$50m – 0.50% Next US\$50m – 0.40% Next US\$900m – 0.30% Above US\$1bn – 0.25%

¹For a full global ex EM Portfolio.

Repeatable — A straightforward and robust process

Investment research for the Global Core Strategy takes place within our specialist regional equity teams. Each of the named regional managers is responsible for finding the best ideas in their respective areas, thereby drawing on the knowledge and perspectives of our entire investment department.

Research notes are produced on all potentially attractive investments and are subject to rigorous debate. The individual/s with direct responsibility for the relevant portion of client portfolios then construct a portfolio based on these discussions.

A separate group, the Portfolio Construction Group, is tasked with bringing these building blocks together to form portfolios in line with bespoke asset allocation requirements. Meeting quarterly, any changes in asset allocation are based on investor enthusiasm for their respective component part, rather than top-down considerations.

The Strategy provides exposure to different geographies around the world and a diverse array of growing companies while having the flexibility to meet bespoke client requirements.

Our vision



It's time to rethink complexity

Set against an ever-changing investment environment, keeping our approach consistent and simple is key.

Our investment research goal is to identify and back great businesses with attractive long-term growth prospects. If companies can deliver this, strong share price returns should follow. As such we focus on each company's operational progress and the business risks involved, not short-term stock performance.

Simplicity is also key when it comes to asset allocation. Driven by the view that our strength lies in bottom-up stock selection, we believe that regional asset allocation should be driven by where we are finding exciting growth opportunities, rather than top-down considerations.

An active, optimistic approach

Analysis of stock market returns shows that companies capable of long-term operational growth generate superior returns and can make a real difference to returns for investors in the Global Core Strategy. We believe that, in the long run, share prices follow fundamentals. Therefore, those companies that can sustainably grow their business, significantly increasing their revenues, earnings/cash flows, will ultimately be rewarded in share price terms.

Our ability and willingness to take a long-term view, looking to the next five to ten years, is a source of increasing differentiation from most market participants and we believe is an advantage over a market often reluctant to look beyond the next few quarters.

Bringing this together, the result is an equity portfolio that is significantly different to the index, with high levels of active share. We believe this is important: if we are to beat the index we have to be different to it. We therefore express conviction in our stock picking, buying only those companies which will best place client portfolios to deliver long-term capital growth and are quite happy to avoid large parts of the market, including many of the largest listed companies.

Why invest with Baillie Gifford?

Our partnership structure

We believe that no investment firm, however rigorous its approach, can consistently achieve great things for clients if the right corporate conditions are not in place. Baillie Gifford is an independent investment manager, wholly owned by 47 partners who work within the firm. The partnership structure has prevailed for 112 years and enables us to take long-term views. We see it as a key strength because successful investment management is not easy. It requires dedication, independent thought and a long-term perspective.

We are not a faceless corporation, we are a place where we do everything we can to let individuals thrive and ideas flourish. Our satisfaction comes from the pursuit of knowledge and its application to investments, knowing that if we do a good job, as well as achieving outperformance for clients, we will have contributed to society's progress too.

Experience and collaboration

The partnership structure also creates a collaborative culture and one in which people stick around. The Global Core Strategy investors have an average of more than 18 years' experience and this includes several investors who have spent their entire careers at Baillie Gifford. However, the team doesn't operate in isolation, drawing on the investment ideas of over 100 investors at the firm to bring together the best stocks for inclusion in Global Core portfolios.

Long-term investment horizon

We are long-term investors in everything that we do. This philosophy permeates the firm, driven by an understanding that companies don't grow overnight, nor do they grow in a straight line. Inevitably there will be periods of market doubt and volatility, especially for those businesses that are growing quickly. Remaining patient and supportive shareholders during such periods is crucial if our investors are to benefit fully from the asymmetric return potential offered by these companies. A long-term perspective is also valuable in recognising the power of compounding and the performance that can be generated from companies which compound their returns over decades.

Benefiting from multiple perspectives

Imagining what the future may hold requires mental flexibility. We need to imagine the potential implications of dramatic change and embrace uncertainty. We need to be ready to let go of preconceptions, while continuously learning and adapting our thinking to consider what we have learned. Trying to be precise is the enemy of good investing. In times of profound change we believe our interdisciplinary approach gives us an advantage.



People

The below managers are responsible for finding the best ideas in each of their respective areas, drawing on the knowledge and perspective of their immediate teams as well as our entire investment department.

Regional equity managers



Iain McCombie, UK

Iain joined Baillie Gifford in 1994 and is a senior investment manager in our UK Equity Team. His knowledge and experience as a stock picker is a valuable input into our Global Core Equity Strategy. Iain graduated MA in Accountancy from the University of Aberdeen and subsequently qualified as a Chartered Accountant. Iain became a Partner of the firm in 2005.



Gary Robinson, North America

Gary is a Partner and Investment Manager in the US Equities Team. He graduated MBiochem in Biochemistry from the University of Oxford in 2003 and joined Baillie Gifford the same year. He spent time working on our Japanese, UK and European Equity Teams before moving to the US Equities Team in 2008. Gary is a generalist investor but retains a special interest in the healthcare sector dating back to his undergraduate degree.



Stephen Paice, Europe

Stephen is Head of the European Equities Team and has been involved in running the European portion of the Global Core Strategy since 2019. He is also a member of the Pan-European Portfolio Construction Group. Stephen joined Baillie Gifford in 2005 and spent time in the US, UK Smaller Companies and Japanese Equities Teams. Stephen graduated BSc (Hons) in Financial Mathematics in 2005.



Milena Mileva, UK

Milena joined Baillie Gifford in 2009 and is an Investment Manager in the UK Equity Team. She has also been a member of the International Smaller Companies Portfolio Construction Group since 2018. Milena graduated BA in Social & Political Science from the University of Cambridge in 2007 and MPhil in Politics from the University of Oxford in 2009.



Iain Campbell, Developed Asia

Iain joined Baillie Gifford in 2004 and is a member of the Japanese Specialist Team. Iain has been involved in running the Developed Asian portion of the Balanced Strategy since 2014 and became a Partner of the firm in 2020. Most of Iain's investment career has been focused on Emerging and Developed Asian markets. He has responsibility for managing various specialist Developed Asia, including Japan, portfolios. Prior to joining Baillie Gifford, he worked for Goldman Sachs as an analyst in the Investment Banking division. Iain graduated BA in Modern History from the University of Oxford in 2000.

How we create the Global Core portfolio



Our goal is to find attractive growth businesses with a competitive edge and a sizeable long-term market opportunity. We believe that long-term fundamental business growth will be the main driver of returns for client portfolios. As such we focus on the businesses outlook over the next five years plus, and aim to seek out great growth businesses which can be held for the long term.

Finding ideas

All investors at Baillie Gifford are, first and foremost, analysts. The majority of their time is spent on the research of investment ideas, specifically companies that offer superior long-term profit growth.

Our investors typically meet around 2,000-3,000 companies each year. This means there is always plenty of competition for companies to retain a place in the Global Core portfolio, which typically contains 100-150 stocks.

In addition to in-house company meetings, our investment professionals have regular, focused investment trips to meet with founders, owners and senior management of businesses. We separately invest in private companies and smaller companies, providing us with early insights into young businesses that may challenge existing holdings or enter the Global Core portfolio themselves at some point.

Our research capabilities are always evolving, and we believe in flexibility for individuals to operate however they think most effective. Managers and analysts often undertake extended research trips to uncover investment ideas and to build local networks. We have a number of relationships with academia that we have found particularly useful in providing long-term insights into how the world, industries and businesses are likely to change.

Research, debate and portfolio construction

Each regional team has their own framework of analysis. The focus is on taking a long-term perspective on factors such as industry background, competitive advantage, financial strength and management alignment that create an attractive long-term growth opportunity and an ability to execute on this.

We then look at valuation. Valuation is no less important, it is just that it is not the starting point of our research. One of the market inefficiencies we aim to exploit is the market's focus on the short term. As such, when we are considering valuation we are thinking less about the near-term PE ratio and much more about how a company can generate a 2x return or more over the next five years.

Once research has identified an attractive company, the author then debates the merits for inclusion with his/her team. At this stage, additional questions emerge that require further research. Once these are satisfactorily answered, the individual with direct responsibility for the relevant regional portion of the Strategy is then free to put the stock into the portfolio. Our investment managers invest with conviction and freedom, paying little heed to benchmarks, other than to observe the broad guideline limits.

What makes us sell?

We continually monitor holdings, and we will sell or reduce if we believe that our fundamental investment case has changed.

Specific situations that would prompt us to consider selling a position include:

- An adverse change in the industry background
- A deterioration in the company's competitive position
- A loss of confidence in management or departure of a senior figure in the firm

Portfolio construction and oversight

The Policy Construction Group (PCG) has responsibility for asset allocation and overall portfolio oversight, meeting quarterly or more frequently as necessary. The PCG comprises the regional investment managers and members of Baillie Gifford's Clients Department.

Asset allocation between the different regions is based on the regional team's desire to buy new ideas/make additions versus complete sales/reductions, i.e. if one regional team has many ideas it wishes to buy or add to and another team has more sell ideas then the PCG uses these inputs to decide how to tilt the exposure of Global Core portfolios (versus clients' bespoke benchmarks). Rather than focusing on top-down considerations, the main driver of asset allocation is therefore the enthusiasm of our investors for their respective regional component parts. The Chair decides if any changes should be made. The purpose of the PCG meetings is not to implement change for change's sake and ultimately (and indeed frequently) the result of the review process may be to take no action at all.

Volatility and other risk characteristics are monitored by our independent Investment Risk, Analytics and Research Team and the findings are discussed at the Quarterly meeting, or more frequently if necessary.

How we incorporate governance and sustainability

Our consideration of governance and sustainability starts in the research process where we consider the values and long-term motivations of management as well as corporate culture. This then extends to ongoing research and review as well as engaged voting (which is performed in-house). We believe that we invest in some of the best companies in the world, but no company is perfect. As such we continually seek to engage with holdings to make changes that we believe can help improve their business and ultimately shareholder returns. It is worth noting that the Global Core Strategy does not operate in isolation, with engagement often being the result of firm-wide collaboration.

Each of our regional equity investment teams has a named Governance and Sustainability analyst who supports our investors in their regular interactions with company boards and senior management as well as with proxy voting.

These analysts sit with our investment teams and regularly join them for meetings with company management and board members. In addition, analysts will arrange meetings directly with company representatives to discuss specific issues. We are cognisant of the imperfect nature of the companies in which we invest, as well as the fact that investing requires patience and a constructive approach to help businesses become better from a governance and sustainability perspective.

Investment risk and liquidity

For active investors, risk and volatility are not the same thing.



Investing is about making decisions with unknown outcomes and probability distributions. There are limitations to our ability to manage volatility. Indeed, we view shorter-term volatility, both in absolute terms and when compared to a benchmark, as a necessary part of the journey towards achieving long-term capital growth.

Fundamental risk

Our first line of defence is rigorous stock analysis. New buy ideas are subject to thorough review by our investment teams. We trust the knowledge and experience of the portfolio managers who are best placed to understand the underlying characteristics of their investments. We continuously re-examine the fundamental performance of the companies in which we invest and the expectations upon which our decisions are based.

We also seek to invest in a broad range of different types of growth business, not just very rapid growth companies. For example, we also seek out secular growth companies that have particularly durable, growth characteristics and will invest in cyclical growth businesses where we can see material opportunity to grow during and through cycles. The result is a portfolio that in aggregate typically has delivered and is expected to deliver high levels of growth relative to the market in general. We also expect the aggregate balance sheet strength to be significantly stronger than that of the market too.

Portfolio risk

At the portfolio level, we believe that the main controllable long-term risk is a lack of diversification, and therefore consider the following guidelines versus bespoke benchmarks. We can also incorporate client-specific guidelines into this framework.

Region ²	+/-6%
Sector ³	+/-8%
Stock ³	+/-4%

1. Versus a client's bespoke benchmark.

2. Based on MSCI or FTSE classifications.

Risk department

We have a dedicated, independent Investment Risk, Analytics and Research Team that supplements the controls outlined above.

The team, assisted by risk models provided by APT, Style Research, UBS and Factset Portfolio Analytics, formally reports on the Global Core Strategy at regular intervals, interpreting and discussing the outputs of these models alongside more qualitative analysis.

The team also provides a broader view of exposures and key themes within client portfolios, as well as analysis of behavioural biases and trading decisions, to ensure the portfolio is being managed in accordance with its long-term growth philosophy.

Investment risk responsibility ultimately lies with the Investment Risk Committee (IRC). The IRC comprises six members, four of whom are partners at Baillie Gifford. The Head of our Investment Risk, Analytics and Research Team, is also a member of the IRC and attends all meetings to discuss issues/concerns on a quarterly basis. This link provides a robust reporting line for the team. The IRC reports to the Group Risk Committee, which is chaired by joint senior partner (CEO), Andrew Telfer.

Liquidity

Analysis of the liquidity of individual holdings is carried out on an ongoing basis by our in-house Trading Department. We also conduct six-monthly liquidity reviews to ensure that Global Core portfolios are suitably liquid to accommodate client flows.

The Strategy has the following guidelines in place:

- No more than 15% of the portfolio should be invested in stocks defined as 'illiquid'⁴.
- The cost to liquidate one individual stock within the portfolio should not exceed 10% of the total liquidation cost.
- To test for the impact of individual client losses, we should be able to liquidate at least 90% of our largest client's FUM within 10 working days at a level equivalent to 20% average daily volume.

Important information and risk factors

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