Hello and good afternoon. My name is Amy Maxwell, I'm from Citywire and I'll be presenting today's broadcast. Today we'll be joined by our guest, Milena Mileva, co-manager on the Baillie Gifford UK Growth Trust which she runs alongside Iain McCombie. Milena will be helping to dispel some of the myths around investing in the UK equity market at the moment and explain why it is a fantastic hunting ground for long-term growth investors. She'll also provide an update on the health of the underlying businesses she invests in, as well as the rationale behind a recent divestment.

Welcome Milena, thanks for joining me today.

Thanks very much, Amy, good to see you.

Now, there's been some criticism of late, that the UK stock market has struggled to attract and retain growth companies that really excite investors. Is this a view, do you think, that you agree with and what changes are you seeing in the market that truly reflect an economy fit for the 21st Century?

It is a view. I don't really agree with it. It's been a recurring theme, I think. I've been asked this question before. I think it's quite important to actually unpack it a little bit and just look underneath the surface. I think there's a rather unhelpful narrowing of the framing of this question usually, in which I think growth companies get weighted with rapidly scaling, often unprofitable technology companies. I just think that's an unhelpfully narrow way of looking at the issue and certainly, not the way Iain and I look at it. Incidentally, even on a narrow framing like this, it's not entirely true because there has been recently IPOs in the UK, of technology companies, rapidly growing technology companies.

A good example here is our own holding in TransferWise, Wise as it is now known. The cross-border currency platform. A rapidly growing company and one also which happens to be profitable, which is good. Nonetheless, I think the substantive point I'll make is that it is unhelpfully narrow. In our view, as managers, as growth investors, actually enduringly successful growth businesses can be found in all sorts of industries. Actually, quite often they can be found in industries which, at face value, are not especially growthy or especially sexy and shiny. Really, to find these types of companies, I think what's important to do as a fundamental stock picker is really to try to develop a deep appreciation of what makes them unique.

These are features like their competitive advantage. Their company culture. Their leadership. These are the kinds of features that will be the key determinants of success and growth being sustained over long periods of time. So that's how Iain and I would look at it in terms of answering that question. Actually, if I look at it that way, the answer is yes, absolutely. There are loads of very exciting growth companies in the UK market. We own a lot of them and we also don't own some of them, right. We are interested in looking at ones that we don't own. So very much so. The other point here is, I work in a firm which is global and invests globally and I look after portfolios which are also invested outside of the UK.

So, I think I can make that judgement and have the context to make that judgement. Very often, I would argue companies we own in the trust, but also other UK listed companies, they're not just good, they are actually world-leading. Genuinely world-leading in terms of their proposition, their products, their management teams. So yes, a resounding I don't agree with the statement that the UK's not an attractive place to look for growth companies. Certainly not.

What a great remark that growth has become synonymous to tech basically. So, what you're saying is look beyond this narrow focus and you'll find some really resilient companies. This resilience is something I wanted to pick up upon, which I think has become even more important. I know you said that many of the companies are getting revenues from outside of the UK, but from a UK perspective, we are seeing inflation rising. So, the companies that you're looking at, how do you pick companies which have financial resilience? What do you look for to withstand this quite difficult and changing macro situation we're now seeing?

I think that's a very important consideration for us because we are very long-term investors. So, we look to own companies for at least five years in practice, much longer than this actually. So, for us resilience is important because they have to be able to weather turbulent times. Whether that's just coming out of COVID and there's major supply changes, disruptions or inflation being sticky or indeed, potential recession, right. So there always will be macroeconomic turbulence out there and we have to invest in companies that can adapt and weather that. I think on the whole, I look at the portfolio and we do it. So, our companies are generally quite high margin. Their margins will be much higher than the index.

They generally don't carry much debt. Certainly, a lot less than the index. So, I think they have the ingredients to be-, I'm not going to argue for a second, that they won't be immune to a macroeconomic downturn, they won't be. It's just that I think they can come out on the other side in pretty good shape and actually, hopefully, some of them actually capitalise on weakened competition, which might not be as financially resilient. So, I'm pretty confident on the whole. There will be exceptions, but on the whole, I think the portfolio is fairly financially resilient and looks quite strong from that perspective.

Could we delve into the portfolio a little more and talk about some of the names that you've really got some conviction behind? Games Workshop created the popular fantasy game, Warhammer. It's in amongst the trust's top ten holdings. Can you explain where you see the growth potential here?

It's one of our top holdings now, Games Workshop. I think just important maybe to set the scene a bit, in terms of philosophically, this company is very aligned with what we're trying to do as long-term growth investors. By that I mean it has an incredibly strong competitive position, I think. There's a very strong core franchise there, which has been nurtured over many decades and has a customer-base which is incredibly loyal and passionate about their hobby. So, I think for me that's a very strong starting point for this company. It's certainly reflected in the financials. We're talking about financial resilience. Games Workshop is a company that has exceptional margins and returns and from that point of view, is very positioned to really adapt and weather difficult times.

It's also a company, I think culturally, that's very aligned in terms of it's a very long-term minded company culture, which I think is very important for its success. It's the reason why it's been so successful over the years. The growth potential, specifically to your point, Amy, is multifaceted really. I think one of the reasons why we are especially enthused about Games Workshop now is that we think the growth opportunities is not only significant, it's also one that's expanding. We certainly don't think that's being reflected in the valuations so we think it will be a very worthwhile investment for shareholders.

There're a few things to touch on here. I think a bit of a perception with Games Workshop, it was a pandemic beneficiary. So, there's concern around will the growth last coming out of the pandemic and whatnot. It's certainly a view I don't share. It's not entirely incorrect, I think. I'm sure there were many people that got back into the hobby and rediscovered their passion for the hobby during the pandemic. Maybe people they used to play as children and came back to it when they had a space and the time during the pandemic. That view ignores the fact that growth drivers for this company have been there for a very long time. They've been in place way before the pandemic started.

Certainly, a big part here, I think the management team has had a big role to play in how the company has improved in many ways, to be able to capitalise on growth. They've become much more open and attentive to the community of customers they have. Their product innovation efforts have really improved, really stepped up. The cadence with which they launch new products is now much quicker. Their marketing has improved and their go to market is improved. Importantly, actually quite an important point for this company is they've really become a lot more deliberate about reducing the barriers to adoption and to people coming into the hobby.

It's a huge fictional universe, Warhammer and the game is quite complex and quite involved and when people come into it for the first time, it can be quite daunting. So, I think the company has really made some strides into trying to reduce some of these friction points and make it more user friendly and easier for people to get involved. So, I think the growth drivers have been there prior to the pandemic. The bit that I find exciting about Game Workshop, we were talking about the UK economy earlier, Games Workshop's opportunity is not just in the UK, it's a genuinely global growth opportunity. I think that's very attractive. They've already had considerable success in the US, which is clearly quite a large market.

I think hopefully, they're getting to a point of critical mass in terms of brand recognition and that hopefully that will mean they can grow for quite a longtime in this large geography. Also, they are increasingly starting to think about further afield, in the Far East and places like China, places like Japan. So, there's a very interesting international expansion aspect to the growth here. Then the other thing which is very exciting is the fact that this company has a staggeringly rich pool of intellectual property. Few companies out there have that, I think. They are, I think, being again, a lot more deliberate and ambitious about showcasing that intellectual property outside of their core business, which is the tabletop game and into new areas.

In media, in videogames, in movies, in TV and whatnot. So, people might have heard last year they announced partnership with Amazon, for example, to develop a TV series which will showcase some of the aspects of the Warhammer IP.

So, lots of spinoff opportunities.

I think it needs to be executed well because obviously, there is a risk if that's not the case. That they cause damage to their core business, which is clearly very valuable, but I think the management team are quite cognisant of it and if they do it well, I think the upside is that actually, you'll introduce by bringing it a bit more mainstream and in new formats, you are introducing more and more people to the hobby. I certainly didn't know anything about it before we got invested. A massive cultural shock, but I must confess I've really grown to appreciate just what a multifaceted and unique thing it is because it's not only books and people painting figurines, people playing the game. Potentially people seeing things in TV. It's a very multidimensional activity and I think that makes it very exciting I think and hopefully, a rewarding experience for shareholders in the business.

Let's move on to another surprising top ten holding. I suppose the surprising thing here is the resilience of the luxury sector across the world, really. You hold fashion house, Burberry within the top holdings in the trust. I'd be keen to understand what your read is on the luxury sector. What's driving this stellar run and how long do you think it can continue and is that propping up the case for Burberry or is there something else at play here?

Always tricky to know exactly what's driving things in the short-term. You're right, the whole sector has been doing well. I think part of it must be the fact that, as you say, luxury brands are perceived as and obviously, that's not without justification, they're perceived as fairly resilient in the context of macroeconomic worries and inflation and potential recession. Luxury brands are seen as very resilient because they have strong pricing power. So that certainly would be one aspect of it, I think. The other aspect of it would be, they are primarily physical retailers. So, they clearly suffered during COVID. Both their own stores and their wholesale networks were clearly out of action. Obviously, on the other side they're now benefitting from it, from reopening.

Especially in China, actually because China is a very important growth market for this industry. Clearly, we've had some pretty severe and prolonged lockdowns in China. So that's been a headwind for the industry, but that's now basically reversed. So, I think these are probably the reasons why they've been doing well. I would argue that the more important issues, as ever, are the longer-term issues. These are the things that we would think about much more than what's happening post-COVID. These things are coming out in the wash. It's more around what can hurt growth and what can derail growth over the longer-term and conversely, what can help growth in this industry over the long-term.

I think that's what we are more concerned about than anything else. I can speak about Burberry because that's the one we hold, of all the luxury goods companies it's the only British heritage brand, which we've held for a while. It's gone through its ups and downs it's fair to say. It's probably at quite an interesting juncture at the minute, we'll see how things go. They've obviously made some very significant changes over the recent past, in terms of their strategy to elevate the positioning of the brand and to bring it more in the high-end luxury space. Some big changes in pricing and product and distribution footprint, which have actually been quite financially painful in the short-term, well a number of years now, but I would say definitely strategically, the right thing to do for the brand. So, the question is on that platform now that they've set, can they build on this and drive growth and importantly, improve the margins of the company, which are lagging relative to a lot of its European peers.

So, the interesting point there then is that they were quite early to act to rationalise the business and improve efficiencies before inflation really took hold. So, they're probably going to come out of this period on a stronger footing than many people who are just starting to make adjustments now.

I hope so. I think they were lagging in many respects, relative to other peers, but it has been something that's been going on for a number of years prior to the pandemic. It's been quite a comprehensive strategy to elevate the brand. The COVID period certainly didn't make it very easy for them because they're still in the midst of doing it. Hopefully as you say, now on the other side, they can build on that and really drive growth. I think that's quite important from here. There's a relatively new management team there. A new chief executive and a new creative director, so hopefully that team now can really drive momentum in the brand.

Now, let's move further down the scale because you have been holding clothes retailer Boohoo for a significant period of time. It's no stranger to controversy and you're still holding it. So, what gives you confidence to continue to invest in Boohoo, which for viewers who may not be aware of what's been going on, it has come under intense scrutiny for some of its workers. So, do you want to expand on that and what gives you confidence in the stock?

It definitely isn't a stranger to controversy, Boohoo. It's been also a pretty poor investment, unquestionably. I think that one of the main reasons behind that again, it comes back to the short-term versus longer-term issues. The shorter-term issues have been around COVID and having benefitted a lot during COVID from physical store closures like all other online retailers. It's been very challenging on the other way. Demand has normalised quite quickly and, also, there's been all sorts of costs going into the business from supply chain disruptions, right. So particularly logistics, but also raw materials and customer acquisition costs. So, a plethora of costs have gone up a lot and the short-term profitability has been very badly impacted by that.

So, I think that's been the reason why it's been a poor investment over the recent year or so, really. To your point, Amy, the longer-term issues that we worry more about are things like their supply chain failings, which have been there for a while, but really were uncovered in 2021. So that's something that we worry much more about that than a rollercoaster period of COVID, out of COVID, in COVID and whatnot. Different people have different views on that. I think the company has made genuine efforts to address the failings. Now, is the job done? No, it's not and it's our job to assess continuously whether their commitment is still there, but I think it's been a painful lesson for them and I think they've genuinely faced up to it and try to really improve significantly and have improved significantly.

It's not something that will all of a sudden stop being an important issue for us to consider. I think it's very important to continue building conviction that they are making genuine improvements and the culture, which historically, has been perhaps too aggressively focused on growth and to relentless in that pursuit of growth and that's come at a cost to other very important things and other important stakeholders. So that's one of the issues where I think we have confidence that the company has made changes, but it's something to continue to monitor and assess.

I understand that you were one of the first investors in Boohoo. Maybe you could talk to us a little bit about the duty you feel as a long-term shareholder in stewarding that company through difficult times?

I think the duty is there because it has been a very successful company and it has the ingredients to continue being a successful company, but it won't be unless it addresses some of these issues. So, I think our duty is most definitely there. No company will be perfect, but there are areas where companies really need minimum standards. I'm hope that this company will have more than just minimum standards, more than just table stakes, it would become leading in some of these areas. So yes, our stewardship there is, I think, important and our challenge is important hopefully, and helpful.

From an ESG perspective, that's the social story isn't it, about how you treat your workers and the impact of fast fashion. On the flipside, if we're looking at this through an ESG lens, your holding another company, Volution, which is quite integral to meeting net zero targets. Do you want to talk to us a little bit about Volution? I understand it has a commitment to healthy indoor air. How did you find this company and how it is fairing as an investment?

It's another company we've owned for a while. My colleague, Iain, was the first person who scouted it out as an idea. It's a manufacturer of ventilation products and it's got a very broad portfolio of products. Some of them are fairly simply things like extractor fans and some of them are fairly complex ventilation systems. You are right, one of the key attractions here, in terms of that organic growth prospect for the company over the longer-term is being regulation favourable, regulatory tailwinds because of climate related issues which governments everywhere in the world are recognising as important to tackle. The company's broader portfolio is well-positioned to help with improving energy efficiencies in buildings, to be able to tackle carbon emissions.

So, it is certainly an interesting company from a point of view, it has that hopefully, long-term tailwind of favourable regulatory backdrop and the portfolios that's well-positioned to exploit that. It's also quite an inquisitive company. It's very cash generative. So, it supplements the organic product development with M&A and it has been making acquisitions in areas that help with energy efficiencies, for example.

In terms of cash generation, is that because it's tied to contracts in terms of servicing contracts around the ventilation? Where is that recurring revenue seen?

It's not necessarily recurring revenue, it's just quite a cash generative business. It's not so much the recurring revenue, but it's just quite a cash generative, profitable business. It's not really an issue around recurring contracts and things like this.

We've focused quite a lot on companies within the portfolio. An important discipline as a manager is also when to know when to let go of businesses. So, one stock you've recently sold I believe, is online food delivery app Just Eat. It's deemed to be fairly successful in the UK. Obviously, benefitted from a huge upswing in demand during the pandemic. So, has it now run out of steam for you? What's the story there?

I think goes back to the broad discussion earlier on. It's quite tricky to distinguish between shorter-term and longer-term issues sometimes, but it's important to try to do so. I think with Just Eat, it would be fair to say we just lost conviction on some of the longer-term potential for this company. That's just really a confluence of different factors there. Just the outlook of the profitability for the industry longer-term. The competitive position of the company in some important markets. Also, to a large degree, management in capital allocation. They made quite a large acquisition in the US of another business called Grub Up, which is where we actually reduced our holding on the back of that acquisition, which we weren't sure about at the time.

I think it's fair to say it's proven to be quite a value destructive transaction. It hasn't worked for them for a variety of different reasons. So, it's a confluence of different factors, but it was more around the longer-term prospects, rather than the shorter-term dynamic around post-pandemic normalisation.

You said the sector in general, do you mean the food delivery app sector? Where would you place a company like Just Eat?

Basically, the food delivery industry, which has gone through a few iterations over time, but I think that conviction that it would be a fairly profitable market over the longer-term, I think we've lost that a little bit.

Would you say the market's now quite saturated then?

There's an element of that too. Though clearly, the market is expanding outside of just restaurant delivery, to other areas. Groceries and whatnot. I wouldn't say it's definitely saturated, but parts of it I think probably are, yes.

So, I know there is a section of the portfolio where you can look at private businesses. The question the person here is asking, "When are you going to invest in unlisted equities? Particularly for growth such as TransferWise or Space X? [marker 0:30:00] How exactly do you know that these-." It's really a question about unlisted equities and your approach to them.

We do have the capability to invest a certain proportion of the assets of the trust in unlisted equities. It's up to 10%. We've currently only made one such investment, which is a very small holding for the trust in a very early-stage company called Wave, which is an artificial intelligence company in the autonomous driving space. We think it's doing some pretty interesting things in trying to crack what's been a pretty intractable problem in terms of solving that autonomous driving challenge. So, we've invested in that, but it's unashamedly a very early-stage company. So, it's in a fairly small way, very small investment for us. We will look for other opportunities. We are looking for other opportunities in the unlisted space, which for us it's quite important that they bring us something that we genuinely can't find in the listed markets.

So, things like Wave, for example, I think that fits that description. So, we will certainly continue to look at interesting opportunities in the unlisted space, but for now, it's really a very small part of the trust assets. We're just invested in one.

It's that 10% to really experiment with and to test the waters of very nascent industries.

Yes, exactly. Things that genuinely aren't there in the public markets currently. We've looked at a number of opportunities in the new energy. Associated with new energy transition technologies. We've found that quite difficult to find investments in the listed space there, I think it would be fair to say, in the UK. There are some, but not many. So, we've come across a few interesting private companies in that area, which we've not progressed, but certainly, that's one area where I can argue there will be some interesting private assets to consider and try to get to know and eventually, invest in.

"So how do you determine what constitutes as growth? How do you know these companies are

growth companies?" We touched upon this slightly at the beginning where we talked about financial resilience, but maybe we can drill down a little bit deeper into your definition of growth and how you really spot that in the market?

What we're looking for is just enduring growth in revenues and profits, ultimately. I think that's what you're looking for and the point I was trying to make is that you can find that anywhere, in any sector, in any company, right. Just to give you a point, I was having this conversation with somebody yesterday on a company called Ashtead which we own in our portfolio and which we've owned since the crisis, since 2010 in our UK funds. So, for a very longtime and have to give credit to my co-manager here, Iain, because Iain was very brave back in the depths of the financial crisis to buy Ashtead. Ashtead is essentially a plant hire company. It rents kits, originally, primarily to the construction industry, nowadays to other more [unclear 0:33:39] activities, maintenance and repair and operation type activities.

Anyway, it's rental for construction. It doesn't really scream growth, right. If you look at it at first glance. If you look at the earnings, it's compounded since the trough in the crisis and it didn't have a credit crisis, it's a cyclical business. Since then, it's compounded earnings, something over 60%. Not money technology companies have done that. The reason why it's done it is because whilst it's a cyclical company and will continue to be a cyclical company, I won't argue that it won't be, there are some very powerful structural tailwinds for this business. The shift from renting to owning equipment in the US, for example, has been a powerful structural tailwind for this company. More importantly, actually just its competitive advantage and business model is very strong. It's probably becoming stronger incidentally. So that's allowed it to gain a lot of market share.

I suppose that was quite a contrarian move then. In the middle of the financial crisis, where you're buying up a business which was focused on construction, when nobody could get any financing to build anything. To invest in a company which hired out construction equipment was quite contrarian.

Definitely. Full credit to Iain for being the first to take the plunge. It's definitely important. The timing you can argue it's important, but what is in some ways just as important actually I'd argue, is the fact we've stuck with this company ever since then. So, it comes back to the strength of our approach. It's because we are very patient and when we identify a company we think really has the ingredients of enduring success, we will stick with it, right. We still stick with it through ups and downs and there's been many times, Amy, I tell you where there's been conversations about Ashtead and the cyclicality and worries about the valuation. It's been tempting to sell it on more times than one, but we haven't and I think that's been a good thing. It would have been a mistake to sell it. So, I think it's that patience, let the growth compound over time. That's what's valuable here. It's important to appreciate.

Where it's a concentrated portfolio as well, you have got companies jostling for position. Can you explain to me a little bit about how you keep the portfolio so concentrated? We've heard the story of when you realised it was time to sell, but what is the process for ensuring that that the ideas are fully meeting the requirements of the trust and it's not time to swap one in-, how do protect the conviction?

I think it's very important for us to remain quite committed to this idea generation process and to make sure we do have a very healthy flow of new ideas coming in because if you see our inbuilt biases, we are very long-term and very patient, which I think is great. You have to make sure that there is this constant competition for capital and you don't remain complacent. We work, as a team, quite hard to make sure that there is this emphasis on new ideas and people bringing new, interesting companies to us to look at. So, it is an important part of the process.

I imagine you also have to challenge each other as well, on validity of an investment idea and it has to bounce off lots of people before you can start making inroads and setting up meetings with investment teams.

We do that and I think that's very important and for us, it's very important. I think we have a culture in our team, in our group of people, that it's pretty open to debate and challenge and everyone likes to have a good challenge and argument on things. So, I think we need to maintain that and it's quite important to have that challenge and exiting ideas, new ideas. I think it's a strength of ours, but it's one we obviously need to nurture.

We have spoken about Volution Group previously. We've got a question here. One audience member is saying this, "It's down 20% in the past month. I believe it's currently your largest holding. Can you speak about this?" I suppose this goes to the point about being long-term and weathering these ups and downs.

I think so. I think whilst there can be quite uncomfortable periods in which companies can go down lots in the short-term and it is very uncomfortable, don't get me wrong, but I think that's where it's important to remain consistent and have an honest appraisal. Do I think the long-term fundamentals here are strong and compelling enough for me and if the answer is yes, I think it's important to have the resolve and the courage to remain invested. Even if the stock is down 20%. A lot of our holdings have been down than Volution, to be honest. So, I think it's quite important-, don't remain complacent. By all means we'll make mistakes and we hopefully learn from those, but if we are satisfied that things are broadly on track and things are going well in terms of the longer-term outlook, then I think just weather the short-term volatility. [marker 0:40:0] I think it pays off in the long-term, but it's certainly not easy in the short-term.

"Talking about how an investment decision is made, how do you resolve arguments to and frow? Are all opinions resolved before a decision is made?"

That wouldn't be possible. I think as ever, if there were substantive strong arguments against, I think the onus would be on whoever is keen on the particular idea to really go and do follow-up work and do some proper thinking and be able to address some of the concerns. It's important and I think Iain and I do this well between the two of us. We back each other, right. I won't necessarily get all the stock ideas Iain has and sometimes, I will be keen on things that Iain might see as much as I do, but it's important to back each other in a theme. Sometimes, the more controversial ideas can be very rewarding. Not many people would have been banging the drum on Ashtead in 2010, but it's clearly been a very good decision. So, I think it's important to give ourselves the backing and the support when somebody is really keen on something.

Finally, there's another one that's come through. "We've heard here about the ESG angle in terms of Boohoo and Volution, but is there a more focused process in terms of ESG screening within the trust?"

We don't really believe in screening things generally, not just around ESG. There is, I'd like think, a very rigorous process around ESG. We have a research framework, a set research framework which we follow when we write on new companies and existing investments. That framework has a specific question on sustainability. The risks and opportunities coming from sustainability so that's very much within the investment process. Then we have within our team, very much as part of our team, we have two very talented people, ESG analysts who work with us and who give their own independent perspective and input on these matters before we discuss any given company and they're very much involved in the whole process. We do meetings together and we work in a very joined up way together. So, I'd like to think, yes, there's a pretty rigorous and thoughtful process behind where we go about it.

All that's left to say is thank you to our audience for joining us this afternoon and thank you Melina, for all of your insights and your update on the UK Growth Trust.

Annual Past Performance to 31 March Each Year (Net %)

	2019	2020	2021	2022	2023
Baillie Gifford UK Growth Trust PLC	**7.7**	**-13.9**	**57.4**	**-18.8**	**-9.2**
FTSE All-Share Index	**6.4**	**-18.5**	**26.7**	**13.0**	**2.9**

Source: Morningstar, FTSE. Share price, total return in sterling. Returns reflect the annual charges but exclude any initial charge paid.

Past performance is not a guide to future returns.

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- ***Share prices may either be below (at a discount) or above (at a premium) the net asset value (NAV). The Company may issue new shares when the price is at a premium which may reduce the share price. Shares bought at a premium may have a greater risk of loss than those bought at a discount.***

- ***The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.***

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