UK GROWTH TRUST MANAGER INSIGHTS

Investment manager Milena Mileva gives an update on the philosophy, positioning and activity of the Baillie Gifford UK Growth Trust portfolio.

Investment markets can go down as well as up and market conditions can change rapidly. The value of any investment can fall as well as rise and investors may not get back the amount invested.

This communication was produced in August 2021 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

A Key Information Document for the Baillie Gifford UK Growth Trust plc is available by visiting www.bailliegifford.com

Milena Mileva: Hello, I'm Milena Mileva, one of two managers of Baillie Gifford UK Growth. In this webcast I will briefly recap what my co-manager Iain McCombie and I are trying to achieve, make some observations on how our portfolio companies performed over the last year and introduce a couple of new holdings we have purchased. Further information on the trust, such as a copy of the recent annual report, can be found on the website.

What Are We Trying to Achieve?

So, let me kick off with a quick reminder of the key aspects of our investment approach. Iain and I are trying to generate long-term capital growth from investing in a concentrated portfolio of carefully selected British businesses.

Top 10 holdings

Stock name	Description	Portfolio (%)	FTSE All-Share (%)
Renishaw	World leading metrology company	4.5	0.1
Genus	World leading animal genetics company	4.5	0.1
St. James's Place	UK wealth manager	4.0	0.3
Volution Group	Supplier of ventilation products	3.7	0.0
Abcam	Online platform selling antibodies to life science researchers	3.6	0.0
Ashtead	Construction equipment rental company	3.5	0.9
Auto Trader	Advertising portal for second-hand cars in the UK	3.4	0.2
Games Workshop	Toy manufacturer and retailer	3.2	0.1
Prudential	International life insurer	3.2	1.7
Howden Joinery	Manufacturer and distributor of kitchens to trade customers	3.2	0.2

Source: Baillie Gifford & Co, FTSE.
As at 30 April 2021.
Totals may not sum due to rounding. Excludes cash.

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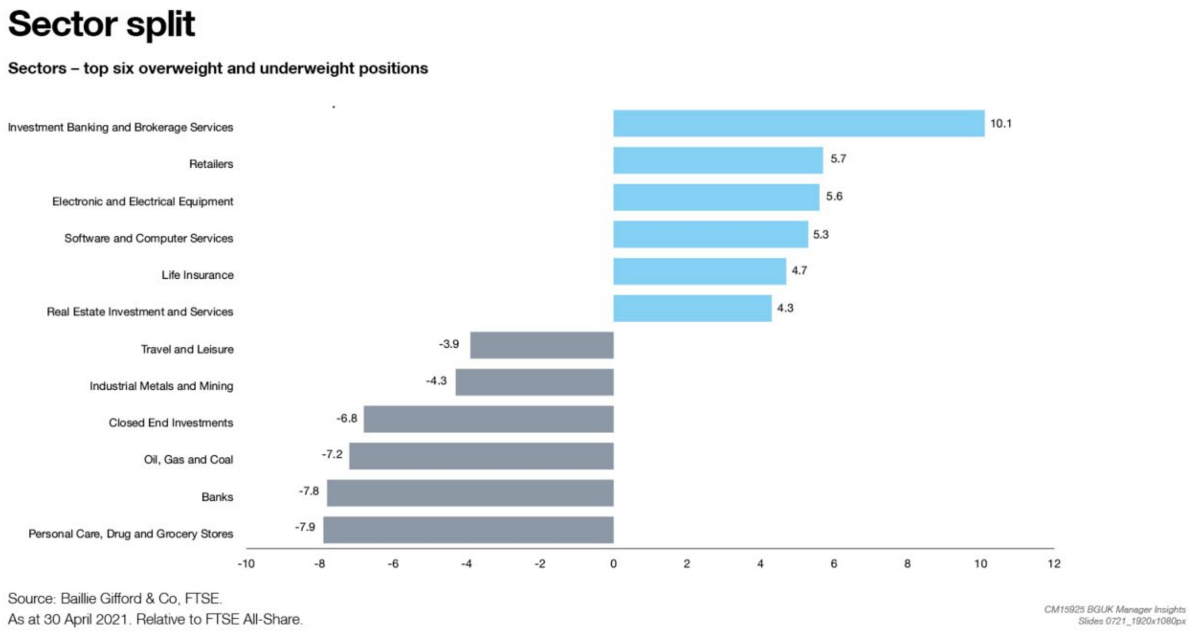
We are growth investors which means we look for companies whose large, long duration growth opportunities, we think, are misunderstood by the market.

We have a long-term time horizon and aim to hold companies for at least 5 years, rather than trading in companies on a short-term basis. We do so because we believe that it is only over longer time periods that the superior competitive and cultural strengths of the growth businesses we invest in will emerge as the dominant influence on returns. In keeping with this, in the last financial year, portfolio turnover was a mere 3 per cent.

Finally, we believe that constructing a portfolio which is very different to the benchmark is a necessary condition for outperformance. We are guided by where we see the most attractive investment opportunities rather than picking companies because of their size or the industry in which they operate. Active share is one often used measure of portfolio differentiation and is high at about 85 per cent for your portfolio.



Performance Backdrop (Year to 30 April 2021)

Reflecting on the past twelve months throws up a strange mixture of emotions and observations. On the one hand, enduring the dreadful health and social impact of the pandemic has obviously been terrible for so many. On the other hand, and whilst it feels almost inappropriate to say so, this past year has been a remarkably buoyant one for investment markets, and indeed your portfolio.

On the whole, most companies proved resilient in what were exceptionally challenging circumstances. And for a fair few of your holdings, the pandemic has only served to accelerate existing beneficial trends.

Pleasingly performance also came from a diverse number of individual stock ideas.

For example, the online luxury-goods platform, FarFetch, saw a real inflection point in demand for its products, grew its customer base rapidly and achieves record revenue. Importantly for us looking ahead over the longer term, we're excited about some strategic partnerships the company managed to strike in this period, notably the one with Chinese tech giant Alibaba and Swiss luxury goods conglomerate, Richemont. We think these tie-ups help further validate FarFetch's position as the leading online luxury goods platform globally.

Perhaps more surprisingly, and despite a variety of regional lockdown restrictions, Ashtead, the industrial plant-hire and rental business showed encouraging trading, and grew revenues within its specialty division. This illustrates the successful execution of its long-term strategy which has been focused on diversifying its end markets with products such as floor cleaning equipment, where the concept of renting is still relatively new. We think this strategy has not only serves to reduce the cyclicality of the business, but also strengthens Ashtead's long-term competitive advantage.

Two New Purchases

As mentioned, turnover has been very low, reflecting the fact that the long-term investment cases for the vast majority of your holdings remains intact.

We did, however, make two new purchases. We took a holding in Experian, the credit information provider. This is a business we know well and have long admired for its strong growth track record, attractive financial characteristics and capable management. We think both the scale of Experian's growth opportunity, as well as its competitive position, have improved substantially over the past five years. We are particularly enthused about its ability to build a large Direct-to-Consumer business, especially in the US and Latin America.

We also initiated a position in Lancashire holdings, a specialist insurance company. It writes commercial insurance risks and has an outstanding track record of profitable underwriting – in stark contrast to many in the industry. In recent years, insurance pricing has been falling but Lancashire has been disciplined and until late last year was happy to shrink and wait until industry losses became unsustainable and insurance prices improved. That moment had arrived and we decided to take a holding which we then increased when Lancashire raised more equity capital to take advantage of the improving pricing in its markets.

After careful consideration we took the decision to sell out of Rolls-Royce and Mitchells & Butlers. We think that for different reasons both are unfortunately in the minority of companies we own that are likely to emerge weaker from the pandemic, with their long-term growth prospects much less appealing.

Private Companies

As noted in the Chairman's Statement of the Annual Report, we would like to request permission from shareholders to have the ability to invest in private companies.

We see the private company space as a really interesting area to find exciting growth opportunities and contribute to the long-term performance of your portfolio.

The backdrop here is that a lot of businesses in the UK, as well as elsewhere in the world, are choosing to stay private for longer. We believe that the permanent capital structure of an investment trust provides the ideal vehicle for us to access such businesses.

In reaching this proposal, we have spent some time tapping into the expertise of Baillie Gifford's Private Companies Team who have assessed over a thousand private companies in the past few years, 180 of which were UK businesses.

To be clear, we see this proposal as simply widening the scope of your investable universe and we would impose a 10 per cent limit on our exposure. We also have no strong desire to buy any private companies unless compelling individual opportunities present themselves.

Outlook

As we turn to the future, the only thing we can note with near certainty after recent events is the folly of precise predictions.

Some aspects of consumer and business behaviour may well – hopefully – go back to normal. But we also recognise that many patterns in the way we all work, travel, shop, consume and interact have probably shifted irreversibly.

We remain confident however that your portfolio is populated with some great UK businesses. They are well positioned to emerge strongly from the pandemic and with the potential to deliver superior growth for many years to come. If those businesses can execute on that potential, then attractive long-term returns will follow.

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Exciting growth opportunities in the UK

As at 30 April 2021.
Excludes cash.

Annual Past Performance to 30 June Each Year (%)

	2017	2018	2019	2020	2021
Bailie Gifford UK Growth Trust plc	19.3	16.5	-0.2	-2.5	31.7
FTSE All Share Index	18.1	9.0	0.6	-13.0	21.5

Source: StatPro, FE. Sterling. Share price, total return. Returns reflect the annual charges but exclude any initial charge paid.

Past performance is not a guide to future results.

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The trust has exposure to a single market and this may increase risk. The aim of the trust is to achieve capital growth. You should not expect a significant, or steady, annual income.

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The trust can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid to the trust, the value of the investments may not be enough to cover the borrowing and interest cost, and the trust will make a loss. If the trust's investments fall in value, any invested borrowings will increase the amount of this loss.

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