

Managed Fund: update webinar

June 2024

Investment manager Iain McCombie joins client relationship manager David Rolland to discuss his current views and portfolio positioning for the Baillie Gifford Managed Fund.

Your capital is at risk. Past performance is not a guide to future returns.

DR Good afternoon. Welcome to this update on the Baillie Gifford Managed Fund. I'm David Rolland, I work as part of our UK intermediary clients team, and I'm joined today by Iain McCombie. Iain is head of UK equities at Baillie Gifford, and joint manager of the Managed Fund, alongside Steven Hay. Iain has spent three decades at Baillie Gifford, and has been involved in the Managed Fund for almost 25 years.

The plan for the next 45 minutes is to quickly set the scene and have about a 20-minute discussion on the recent drivers of performance, what we're doing with the portfolio, and where we go from here. And the final 20 minutes, the audience Q&A.

A quick thank you to those that have submitted a question prior to the webinar. We'll definitely get to those a little bit later on. But if you do want to ask a question, you should be able to find the Q&A panel just down to your right-hand side.

So, just to quickly set the scene around performance, I'll put the performance table up, after a year of acute pain for fund holders, 2023 was much more palatable, returning 10.7%. We didn't see the same types of crises that affected the fund in 2022. The timing of rate cuts has still been the main question. Markets started to think that rate cuts were on the way, and as we entered 2024, consensus was about six or seven. That's not materialised.

Since the start of the year, we've gone from expectations of six, to one or two, and actually in some quarters people felt that rates may rise. So the macro remains choppy but, in the round, the year has started pretty well, and over the last 12 months to the end of April, the Managed Fund returned 8.7%.

And I think the final point to make on the table is around the ten year number. Over that period, there have been a number of crises, but at a compounded 7.6%, investors in the fund for the last ten years will have doubled their money.

Iain, thank you very much for your time today. I thought we could begin by perhaps you just giving us a brief run-through of what's driven fund performance over the last year.

IM Good afternoon, everyone. I think, David, you're right that 2022 was a difficult year. 2023 was a bit better, but we're aware the three-year numbers aren't good enough, but I think what you'll hopefully pick up from us from the rest of the presentation is that we're looking forward with a lot of confidence.

To answer your question on what helped in 2023, I think 2023 was the year of AI, or artificial intelligence, and clearly that had a big impact on the stock markets, particularly in the US, where you've heard of the Magnificent Seven, the seven big tech names, and within that we own Nvidia, which is the designer of graphics processor units which are used in AI and other matters, and that's been a phenomenal performer for us.

Now, the interesting thing about that one, David, just to put it in a broader context, we've actually owned that since 2016, so this wasn't us just jumping on the bandwagon, this is a company we've admired for a number of years.

And interestingly enough, the other thing was in 2022 it was a very poor performer. Because, at that point, a lot of its chips were used in gaming things, and people were saying, well, people are now going back into work, they're not working from home. And, surprise surprise, a lot of people were getting used to going up, during Covid, it kind of fell and the share price collapsed.

But then AI came on the scene, and it's done really well. So that's been a big winner for us. We've actually trimmed it a bit since then, but it's actually still our biggest holding. That's still under 2% of the fund. Gives a good idea of the diversification of the fund.

Another of the Magnificent Seven that we own was Amazon, which again, for obvious reasons, has been a good winner from that, because of its AWS service, but its core business has also been doing very well.

In terms of other tech things which are really strong, which are very notable, was Shopify, which is another US business which helps small businesses do their back office and their e-commerce systems, and that's been doing extremely well, again using AI to help their customers better understand their inventories, their data and so on. And there's a lot of really good reasons for that.

But I don't want to leave you, or the audience, with that it's all about technology. We had some more prosaic names, things like Petrobras, the Brazilian oil company, with the higher oil price, it was very geared into that, and it did extremely well.

And then finally, I guess closer to home, we had Marks & Spencer in the UK, which a lot of people had written off for a number of years, which we had to but we could see a recovery story, which we've talked about in the past. And last year was the first real sign that it's

really starting to get a bit of traction, and they've performed, both operationally and financially, share price wise, very well.

DR Iain, you mentioned there the diversification, you mentioned the Nvidia weighting, being under 10%, obviously, it's a really diversified fund, but the flip side, I guess, of course is when you've got over 200 equity holdings, not everything can be firing on all cylinders all the time.

IM No, you're right. We're always going to hold things that go wrong, and we're always going to have the mistakes, so I think it's the first thing to say that that always happens. And one of the things we've looked at quite closely is, are we making more mistakes, for example? And we don't think that's the case.

Now, what happened last year? Well, there's one name which I'm sure a lot of people who are listening to this will have a bit of shout and frown about, which is St James's Place. For reasons we don't really have to go into, they changed their pricing model, which the market, in the short term, doesn't like.

I think it's the right thing to do, longer term. But I think more recently, at the start of this year, when they announced that they're having to look at, because of consumer duty, whether all their advisors have actually been advising all their clients in order to improve it, and they're taking provision for that, and the market really didn't like that.

Now, where we are is that the business is still seeing net inflows, and yet the share price is trading at a very distressed level. There's a lot of uncertainty out there. We think the new CEO is very good. We knew him from Prudential days, we think he'll do a good job for the business, but there's a degree of uncertainty there.

David, we talked about this before, that one of the big things that all CEOs in this areas that we've been speaking to is regulation, consumer duty, and I'm sure the audience will have their own views on that too. So there's a lot of uncertainty out there, but we think the valuation is kind of picking up at the moment, so we're sticking with that.

Other things that we've we sold, that hurt us last year were Zalando, which is a European online fashion business, or clothing business, it performed pretty poorly, and we sold out of that, and a US business called Novocure, which is a biotech kind of business, it had pretty disappointing results, and we sold out of that too.

So the positives, I would say, did outweigh the negatives, but there are always going to be some things out there. But that's what hurt us last year.

DR Yes, sure. And before we move on, markets have been pretty strong, year to date, and arguably the Managed Fund hasn't kept up quite as well as maybe many would have expected. Certainly, it's a fairly regular question that we've been asked by clients, could you

explain why that is, why the fund hasn't quite kept up with the strong equity markets that we see?

IM I think there are three things I could bring out there, David. I think the first one is, remember, this fund is a managed fund, so 25% of the fund, roughly speaking, is in bonds and cash, it's not an all-equity fund, so therefore you shouldn't be expecting this fund always to be outperforming an equity market when equity markets are rising. So I think that's the first point.

I think the second point of what's been going on, when you drill into it, I think the main thing is our exposure to the US. We're at just under 20% of the fund is in the US. A number of other managed funds pointing in more global market weighting around probably double that, so that's obviously one of the better-performing markets, and that's probably not helped us in the short run.

I'm sure you're going to ask me, okay, why is that? I think a lot of people hopefully know this from our fund, that roughly speaking about 75%, let's call it 80%, keep it simple, is spent on four different pots. The UK, North America, Europe and developed Asia as still emerging markets.

And we think that's a pretty good way to have a broadly spread portfolio, so that you've not got all your eggs in one basket, and having that diversified experience, I think, is pretty good.

The other thing I would say, just on a fundamental basis, is that although we've only got 20% stock market exposure, I think our economic exposure is a lot higher than that, because a lot of our companies, let's say in the UK, I know, for example, have got big US businesses, so I think that 20% is a bit low and doesn't tell you the whole story.

And I think what the attractive thing is you get exposure to a really strongly performing economy, with very attractive valuations, particularly in the UK, for example, but also in Europe and Asia.

Then, the third thing, the final thing, is actually Japan has had a very good year, and unfortunately it's been much more of a value-driven recovery, and obviously as a growth manager, we're not really exposed to that. That's been another thing that's probably hurt us a little bit.

So those are the kinds of factors. I think they're all pretty short-term-type things, and to me it's noise. I hope it doesn't insult anybody in the audience, but we're five-plus-year investors, you can see that in our portfolio turnover. But you asked the question, David, I'm trying to give you a quick answer.

DR And actually, that's a good segue in. We'll come on to portfolio turnover, and maybe we'll talk a bit about what you've been doing to the portfolio. Just as a reminder to the audience,

if you do want to send a question to Iain, please do use the Q&A function at the bottom-right of your screen.

You mentioned turnover there, Iain, looking at it, turnover's been within the expected range of between 10% and 20%, so an average holding period of five to ten years, which is kind of what you'd expect from us. It was 15% at the end of April, so can you give us a feel for what you and the team have been doing?

IM Yes. This is a reminder, David, what we do is we give a pot of money to each of our regional teams and say, look, you find the best stock. So it's not me directing mine, telling everyone, you do this, you do that. It's very much our regional experts picking the best ideas in their areas.

And I think the encouraging thing, David, is that we're still finding lots of ideas that people are getting excited about. And they're not all technology names. I'll give you a couple of non-standard names, just to start off with.

One that a lot of people might not think about is a company called Assa Abloy, which is a Swedish locks and doors and gates company. You may have Assa on your key, if you've ever looked at it. And if you don't, you might have Chubb. Again, we own Chubb. So that's an attractive, very steady, very profitable business, which we're really excited about.

In the UK, we bought a business last year called Diploma. You may not have heard of it, but I think it's a really interesting and exciting business. It's evolved in what we call value-added distribution.

Now, what is that? Well, let's imagine you're in America, you're running a big Caterpillar truck. It breaks, it turns out you need a new seal. Obviously, that costs you a lot of money every day that that digger's out of action. What Diploma do, for example, they have a business that sells these seals, and if you get it by eight o'clock, you'll get it next day. And you pay a little bit more for that, but frankly the cost of a seal and the cost, margins that they make, it's immaterial in terms of how much money you've lost by having that out of action for three or four days.

So actually that's a really interesting business. Very profitable, high-teens margins, which is really exciting. And it's a very decentralised business, very small head office, they trust the management teams of their areas, and they're always trying to find new companies to buy into.

For example, they bought a distribution business in automation, factory automation, and obviously that's an area that's doing really well. So two interesting growth areas.

Then, more traditional things, we bought back into Meta who owns Facebook. We think actually, to be fair, they've recovered pretty well, and they've got some really interesting plays on AI, which I think is really pretty exciting.

And then in terms of biotech, which is still a really interesting area, we bought a Danish company called Genmab. It's a provider of antibodies to big pharma companies, so it's a classic picks and shovels kind of business, and it's getting really strong demand from these customers, and it's still remaining very innovative. So I think it's got a really good tailwind behind it.

So I think the thing I would say, David, is we're still finding lots of really interesting, exciting ideas to invest in, not just in technology but other growth areas. Now, how are we funding that? Well, we're continuing to kick the tyres on our investment cases, and if they don't make sense, we will sell them.

I mentioned Novocure, which is a really innovative business. Unfortunately, they had some very disappointing trial data, which really called into question their technology, so we decided just to sell out of it.

Another one which was a bit harder for us was HelloFresh, which is a distribution business, the food that comes to your door. Unfortunately, competition has just been pretty hard there, and also the fact that we originally liked it because we thought it was a very strong subscription business. It turns out people like you, David, you're far more fickle, you don't want to eat healthily all the time, and therefore their subscription business has been a bit more flakey than we thought. So we decided to sell out of that.

And then the last one, probably a bit high profile, is Alibaba, which is like the Chinese Amazon, and we sold out of that for a couple of reasons. One is that the competitive threat to that market has actually been quite intense. There's a company called PDD which is a competitor of that. We've actually bought that business, because we think it's more innovative than Alibaba and it's eating its lunch.

So after the competitive position in that market is changing, we decided to sell out of Alibaba. Very different to Amazon, where Amazon continues to strengthen its position in a lot of its more Western markets. So a lot going on there, David, but again let's put this in the context of 15% portfolio turnover, pretty low, so the bulk of the portfolio remains unchanged.

DR So if I read this right, we've covered the backward-looking bit quite well, a decent 12 months, much better than the last. We've lagged a little bit, year to date, and that's been really due to a narrower set of companies driving performance. So let's maybe look ahead a bit now.

We've been, as you've said, you've been taking the opportunity of weakness to add and strength to trim, and finding new ideas, but clients will be sitting there saying we need good reasons to hold from today, so could you give us more of a high-level view of how things look in the portfolio as of today?

IM Yes. It's a good question, and I'm sure we'll get some more on these things, but we've got a slide here which I think really tries to give people that reassurance, and I think optimism, for the future. What we're trying to show here is consensus numbers for various factors.

On the left-hand side, you can see the portfolio's average net debt to equity compared to the index, the world market. And what you can see there is our portfolio balance sheets are in much better shape, half the level of debt that you have compared to the market.

That, I think, is quite interesting, because if ever there's an advisor out there who's worried about interest rates staying higher for longer, that will put pressure on leveraged businesses, but what you can see here is that we're not really in that position. We're actually in the position where balance sheets are in pretty good nick.

And I think that's a factor of our bottom-up style, we want to find good quality businesses with strong balance sheets, because businesses with strong balance sheets can invest. And I think that's a really important point, David, that what's not on this chart is that companies with strong finances can be investing in the tough times, and that really positions you well for the future.

And when we talk about the future, let's move on to that second couple of boxes growing faster, and that shows the three-year forward earnings growth numbers, or the portfolio compared to the index. And what you can see here is that the managed fund is in a really good position, that its growth rate is almost double that of the index.

Now, I'm sure there are a few cynics out there saying, well, these are all consensus numbers, they could all change, and you're absolutely right, but what it does say is that our companies are positioned for growth in the future.

And we've always said that share prices follow fundamentals, so if you've got a portfolio like the Managed Fund of companies of above-average earnings growth, we think we're really well positioned for that.

I think the really interesting thing is on the right-hand side, which shows the premium that you are having to pay for our portfolio, relative to the index. Now, first of all, you'd expect with superior growth you'd have to pay a higher, short-term premium, but the market is very short-term focused, what we're trying to look at, as you said, David, we're trying to look at five, ten years, that power of compounding, so a stock that can look expensive on a short-term basis we think is really good value on a five to ten-year view.

But what's interesting on that right-hand side is that the premium that you're having to pay is back to where it was in 2018. We had that big bubble, just post-Covid, when everybody got really excited, we went through that really tough period in 2022, when it all kind of came out again, but you can see there that the valuation has gone back to what it was.

But what is doubly interesting, David, is that the growth rate now, compared to the index, is better now than it was in 2018, but you're saying exactly the same premium. So that gives us a lot of confidence that the managed fund is well-positioned for the future.

DR Thanks, Iain. Just a quick one, questions have been coming in so we'll go to them shortly but just a quick one, I noticed that, at the start, you mentioned the asset allocation of the fund, you said the starting point was 25% bonds and cash, which would mean 75% equities. What does the asset allocation look like versus that starting point today?

IM We're actually slightly overweight in equities, probably about 78%, 79%, which is high. Why is that? Well, it's a function of the bottom-up conviction of each of the regional managers that works alongside me.

And we have a meeting every quarter, where we have what we call an investors meeting, a pre-IPC meeting, and the tone from each of us has been very upbeat, and people are finding these ideas, the Assa Abloys, the Metas, or adding to things like Moderna. People are getting really excited about the opportunities, that you can do that.

And our asset allocation is bottom-up, David, as you know, so that means if you take that function of rather than trying to make these top-down, which market's more attractive, we're saying, trust the experts. And if the experts are saying we like our equities, we want to have more money to buy them, we allocate more money to that. So actually, we're overweight in equities.

Within the bonds and cash, I would also say that we've been adding more to bonds and taking out of cash, because we are finding more attractive areas in bonds to invest in, with yields. With rates going up, there are more attractive yields, the risk-reward is looking more attractive, so we've been adding to that position too.

DR So plenty of reasons for rational optimism today. I think we'll go to some of the audience Q&A, Iain. And I'm just going to cover off one, because there were a few questions that came in prior to the webinar, so I wanted to put them all together, which is around the three-year number, around the timing of performance, and the question effectively says when do we think we can expect to get full bounce-back in performance after that really steep drawdown of three years ago?

IM I wish I had a magic wand, or a crystal ball, that could tell you when that's going to happen. Because we know it was very painful for clients, particularly for clients that have come in in the last few years, and I'm sure a lot of the advisors, you've had some quite tough conversations about that.

But what I would say, the two things I would say, to give you reassurance, the first thing is that our track record, over the long term, has been done in a very difficult environment. The last few years have been difficult, but in a way that's been no different to the last 38 years.

And we've run the fund in exactly the same way, so we're very much running a very simple equity, bond and cash, very much bottom-up-driven, trying to find the best ideas, and we think that that is the best thing that's going to deliver rewards to clients.

I think the other thing that I would say, which hopefully those slides showed you why we're feeling upbeat, that we think that the growth is there, that, in a sense, the last few years have been unhelpful for us because essentially there's been a flight to safety, interest has been going up, it's probably hurt some of our growth businesses in the short term, but it doesn't diminish the long-term opportunity.

That's been a big headwind for us. We think that headwind is kind of tailing off, and at some point that could be a tailwind, if we see interest rates coming down. But even if interest rates don't come down, the growth rate, the superior growth rate, we think of our Managed Fund compared to the index gives us a lot of confidence that we can start to deliver hopefully better performance in the next few years.

DR Thanks, Iain. There are a few questions that have come in on risk, so I'll just maybe try and put them together in a two-part question. With the fund more generally, how do you manage risk or manage volatility? And then, maybe stretch it out into our sell discipline at Baillie Gifford, as in what process enhancements have we put together to ensure that the equities that we hold don't go all the way up and then come all the way down. What kind of process improvements have we put in place to try to mitigate that risk?

IM On the risk and volatility points, David, we do have risk guidelines, which are monitored by an independent risk team, to make sure that we have not too much in a certain country, a sector or an individual stock.

Also, in our bond portfolio, we monitor the beta of the bond portfolio relative to the equity portfolio, so we don't want a beta of more than 0.25, to try and make sure that the bonds generally are diversified, rather than just another geared version of what we're doing in equities. So that's the first thing, and we haven't come anywhere close to breaching any of those risk guidelines.

I should say that we also have the risk team asking the other questions, because it's great to have guidelines but are you running any other risks that you're not aware of, or a particular challenge?

We have a report twice a year, we meet, what we call our Investment Policy Committee, which is a few of the investments in the group, and a couple of your colleagues, plus the risk team, to discuss these issues. So we've had discussions about that, but we don't think there's anything that's calling out.

On volatility, this is quite an important point, we do not manage this fund for volatility, or short-term volatility. So I'm afraid, if you're wanting high returns and low volatility, this is not the fund for you, because we do not run it, we've never said we run it, in that way.

We think that really the key thing is having that disciplined process, having that long-term investment horizon, and a very clear investment style, you've got to accept short-term volatility. But we think the rewards of sticking to that style are big.

As you said, that 38-year track record, we've been through tough times, we've been through crises of any kind of sort, and actually we've still delivered very good returns over the very long term.

So we're not going to change from that. And I think that's one of the big things that really hurts advisors, it's style drift. You thought you were buying this type of fund, and then they start doing something differently because they're under pressure to do something.

We are growth investors, we're going to stick to our bottom-up style. I'm not going to apologise for that. We'll apologise for individual mistakes, but we think the process works and we're not going to go away from that.

And that comes back to that experience point, David. If you look at the experience of the team, I haven't calculated it, but I'd roughly say we've got 20-years average investment experience, pretty much all at Baillie Gifford.

And that's a really important point, because even the youngest investors have been through performance cycles in the Managed Fund, and we know the key thing is to keep sticking to your style. So even if the numbers don't look great looking backwards, that's why we're looking positively, looking forward.

DR Thanks, Iain. We've had a question come in, and I think it's important to reiterate because I think it takes you back to your slide on the fundamental strength of the portfolio. A client has asked, if inflation is expected to be more sticky, then interest rates may remain higher for longer or more volatile, and is this being factored into the investment process, rather than just buy-and-hope?

IM When you look at different scenarios, when you're looking at stocks, we're not top-down, we're not trying to forecast the economy or inflation, because, to be honest, it's a bit of a mug's game.

Speaking to companies, I think that's the best way to try to answer that question. I would say that companies are feeling pretty good, inflation is moderating. Where I think companies find it difficult is when you're in that point of extreme acceleration or extreme deceleration, there's a bit of discontinuity for customers, suppliers, employees.

And what is interesting, I was actually to a company yesterday, David, where they were going through their annual pay review and they pretty much said the pay increase this year

is a lot less than last year, but the staff are very happy about it because they can see inflation is coming down and therefore they can understand why it's coming down.

Why's that important? Because that does lead to inflation gradually coming down, but even if it doesn't, I think we're okay at the moment. I think companies have adjusted to that higher inflation point. We haven't seen some massive shock to our earnings growth and, if anything, inflation coming down could be even better, but even the base case of that scenario is I don't think we're really worried about that at all, to be honest.

DR And we've had a question coming in on our UK equity weighting, and whether or not you feel that that weighting holds us back as a fund, given it's a large weighting, relative to other geographies in terms of the investment opportunities to choose from. How do you feel about the UK equity weighting?

IM As a UK manager of the fund, you'll have to take it with a pinch of salt, what I say, but I know it's been a question that's been asked, but I think that's always a kind of backward-looking way of thinking about it. Because in a way, yes, the UK market has been a bit disappointing, and people, you read papers here or the websites and it's all doom and gloom. But we're anything but doom and gloom, we think there are some really interesting opportunity here.

Growth is on sale in the UK if you know where to look for it. And what we find is we find some very attractive growth businesses which are, in terms of ratings, very attractive compared to global peers, and yet a lot of people are just not interested in them. And I think that's a great opportunity.

For example, a company called Inchcape, the car distributor, they sold out of their UK retail business very recently, so they're now a global business doing distribution, which is a very higher-margin business, working with lots of brands. They're in a fantastic position, and yet the stock has been trading like a deep cyclical. The balance sheet's in a good position, it's getting stronger, cash flow is good. Nobody wants to know in the short term.

But to me, that's the type of business that is making its business stronger, more attractive, and yet the rating is not interesting. It's a global business. It happened to be quoted in the UK, but 95% of its earnings now are international. And if you look at our portfolio, we have a very high weighting of overseas earnings within that.

So in a way, you're getting a great opportunity at the moment, and I think it'd be a mistake to say we should buy more America and get out of the UK, because I think the opportunities in the UK are attractive, really attractive, at the moment. But of course, I would say that, because I'm a UK manager.

DR There is a question that kind of relates back to what you said on the bond side and diversification. There's been a lot of column inches this last couple of years on the 60-40

portfolio and whether that works anymore, whether bonds work as a diversifier from equities.

The Managed Fund's only three asset classes, equities, bonds, cash, do you think the bonds still work as a diversifier? Is the team looking at assets outside these asset classes?

IM First of all, you've got to look at the short-term and the long-term context. I think 2022, it didn't work. We always think equities have got to be balanced, to some extent, by the bonds, but when you saw interest rates go up quite sharply, we got a negative correlation, our equity portfolio went down and our bond portfolio went down.

Our bond portfolio went down about 6%, but it was uncomfortable. But what's interesting, David, and we're working on a paper on this, so watch this space, one of the things we've been looking at is the correlations. 2022 really stands out on a 40-year basis, that very unusual correlation between bonds and equities doing really badly.

Now, a lot of people are jumping on the bandwagon and saying, well, that means 60-40 is finished or whatever. But if you actually look at it, I would always argue the opposite, that actually if you look on a 40-year basis, it actually does work. It doesn't always work, but again I don't [?] look at the slide, David, where we've got all the what's happened over time, the Managed Fund's been going since 1987, we've seen lots of crises, and frankly, yes, that's it. I think you can go back to:

We launched the Managed Fund in 1987, about six months before the Great Financial Crisis or Crash, Black September, Black October whatever it was, in 1987. I think people were writing the obituary of managed funds at that point, and pretty much ever since then, people are always trying to say you don't need it.

But actually, despite all these crises that you can see on this slide, ERM or the GFC or the tequila crisis or flash crashes or Covid, the Managed Fund has actually done what it said it's going to do, deliver that capital growth with a balanced approach, so I don't think it's wrong. Obviously, we always keep it under advisement, but I think you can get all you need from those three asset classes.

And the other point is it's very good value. And I think once you start increasing more complexity, more things, your costs go up. And I think that's the one thing people never like talking about, the cost. Because high costs kill you over the long run, and that's why we think at 43bps, this Managed Fund is really well-positioned compared to a lot of other funds you could buy in this area.

DR Thanks, Iain. And just on the concentration, because we talked a bit about how we asset-allocate in the portfolio and how there are 200 equities and a good number of bonds in the portfolio, have you discussed the prospect of taking more concentrated positions in any of the more high conviction names that you've got in the portfolio?

IM The short answer is no. We think the balanced approach; there are about 200 stocks in the Managed Fund. We like that, we think that's what customers feel comfortable with. You don't have to wake up at night wondering, Nvidia's reporting next week, it's 15% of the fund, can I sleep at night? It's 1.8% of the fund. And I think that's the biggest holding. And I think that's really important. The largest holding in the UK is 0.9% of the fund. It's a very well spread portfolio.

It's high active share, that means it's different to the benchmark, so you're still getting the beauty of active management in the fund, but you're not getting that concentration. If you think, for a fund like this, which is trying to provide that balance, that reassurance over the long term, it's the right thing.

Now at Baillie Gifford, I'm sure, David, you can talk about other funds that have a different approach to that, and run a very concentrated portfolio, very successful, but we're not doing that and we don't see why we should be doing anything different to that in the future.

DR Sure. And just to come back, I suppose it's difficult to answer a question about market timing, but we've had a question around what you think the catalyst for the fund to start performing better than its peers would be. I know you've had this slide before about the earnings growth, do you think there's a macro catalyst, or is it all going to be driven by the fundamentals?

IM Oh, that's the big question isn't it, David? It's a great question from the person. I could blather on for ten minutes, but frankly it's bullshit. I don't know is the honest answer, because it could be the micro things, or it could be a macro thing, or it could be some combination of both.

But let me give you an example. One of the biggest holdings in the UK part of the fund is called Autotrader, the website that sells second-hand cars, or helps car dealers sell second-hand cars to you and I. The stock's been under a bit of a cloud in the short run, because people have been worried about the UK economy, what's going on in the car market, people are hearing stuff about second-hand cars, prices are going down, this must be bad news. Last week, they had numbers which were great, better than expected, shares were up 15% on the day.

Now, we're trying to scratch our heads, why are things going a bit better, why has the share price reacted so well. They're good numbers but they're not amazing, nothing amazing has happened.

And that's, to be honest, a function of we think the businesses has been doing really well, we were totally unworried about it, they do well, we're kind of like, yes, that's what we expect them to do, but the market's been having a nervous breakdown and worrying about

the economy, this must be exposed to it, blah, blah, blah, and then they kind of go, fantastic, it's done really well since then.

So you get these things that happen, but what's going to change that? I think the three slides that I used, people are so obsessed about interest rates at the moment, if they see people thinking, yes, rates might keep coming down, that could be a catalyst. But I don't know would be my honest answer.

But what I can say is that you can own this fund, one of your earlier questions about if inflation stays the same, you don't have to be betting on good news, economic good news, to say this portfolio is well positioned. We think there are lots of really interesting, bottom-up ideas that are going well in this fund, and you don't have to hope that there's some macro sentiment, interest rates have to halve before this fund gets going.

I think there are plenty of reasons for this fund to continue to do well. It's about being patient, owning great businesses, and this fund owns great businesses, and remembering that share prices follow fundamentals. That's the two plus two equals four for Baillie Gifford.

We keep saying that to ourselves because a lot of people in the market, very clever people, keep trying to tell you that two plus two equals three. But we stick to that, and that's why we don't trade too much, because people always want you to trade out of things. That's why we've held things like Autotrader for a long period of time, because we know it's a great business.

DR Thank you, Iain. We've managed to get through all the questions. If your question wasn't answered or was missed, I promise we will reach out to you and answer it directly. Thank you all for your time today, and if you have any other, more general questions on the fund, or Baillie Gifford, please feel free to reach out. Thank you for your time.

Baillie Gifford Managed Fund

Annual past performance to 31 March each year (net%)

	2019	2020	2021	2022	2023
Baillie Gifford Managed Fund B Acc	0.2	46.4	-8.2	-8.5	10.2
IA Mixed Investment 40%-85%	-7.8	26.3	5.4	-4.3	10.2

Source: FE, Revolution, net of fees, total return in sterling. Class B Acc Shares.

Past performance is not a guide to future returns.

The manager believes an appropriate comparison for this Fund is the Investment Association Mixed Investment 40-85% Shares Sector median given the investment policy of the Fund and the approach taken by the manager when investing.

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

The specific risks associated with the Managed Fund include:

- Custody of assets, particularly in emerging markets, involves a risk of loss if a custodian becomes insolvent or breaches duties of care.
- The Fund has exposure to foreign currencies and changes in the rates of exchange will cause the value of any investment, and income from it, to fall as well as rise and you may not get back the amount invested.
- The Fund invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.
- Bonds issued by companies and governments may be adversely affected by changes in interest rates, expectations of inflation and a decline in the creditworthiness of the bond issuer. The issuers of bonds in which the Fund invests, particularly in emerging markets, may not be able to pay the bond income as promised or could fail to repay the capital amount.
- Derivatives may be used to obtain, increase or reduce exposure to assets and may result in the Fund being leveraged. This may result in greater movements (down or up) in the price of shares in the Fund. It is not our intention that the use of derivatives will significantly alter the overall risk profile of the Fund.
- The Fund's share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the Fund is priced.

Further details of the risks associated with investing in the Fund can be found in the Key Investor Information Document, copies of which are available at www.bailliegifford.com, or the Prospectus which is available by calling the ACD.

Important information and risk factors

This recording was produced and approved in June 2024 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

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