Baillie Gifford™

Disruption Week 2024
Far and wide: private company investing

November 2024

In this Disruption Week conversation, we explore how our Private Companies Team builds relationships with some of the world's most exciting entrepreneurs and tell you about some of their endeavours, from beaming broadband from orbit to reimagining how we enjoy live sports.

Your capital is at risk.

Leo Kelion (LK): In the early 20th century, Armand Spitz had an epiphany. "Planetariums are the greatest teaching instrument ever invented," he declared. The problem was they relied on eye-wateringly expensive equipment, involving dozens of projectors and lenses. Only six US cities could afford one.

So Spitz set about building a DIY alternative to inspire his daughter. He displayed the stars' movements by beaming light through hundreds of precisely drilled holes in a mechanised metal ball. And he founded a company to sell the invention to schools for $500. Spitz proved to be a resourceful entrepreneur. When faced with an engineering challenge, he called on Albert Einstein to solve it. And over time, he grew the privately-owned business, creating more elaborate systems that led to the opening of hundreds of planetariums across the US and overseas.

Today, I'll be speaking with investment manager Alexander Nicolier. He'll tell you about other transformational private companies expanding and creating new markets, and why many pick Baillie Gifford as their partner, providing you with rare access to some of the world's fastest-growing companies. In addition, we'll reveal how Spitz's legacy lives on in one of our most recent investments. Welcome to Disruption Week.

A reminder, these webinars are about 45 minutes. Alexander and I will be chatting for the first 30 or so, and then we'll take questions from you, the audience, for the last 15. We'd love to hear what you want to know, so please use the 'Ask a Question' tab on your screen.

Alexander, thanks for joining me. Great to have you with us.

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Alexander Nicolier (AN): Thank you for having me.

LK: Let's start with a general question. What do you think most people misunderstand about investing in private companies?

AN: I think most people still think of private companies as the typical Silicon Valley start-up, founded by two or three college drop-outs and working in a garage, and that maybe a few of these businesses get to reach and exceed the $1bn valuation and become a so-called mythical unicorn.

The reality is that private companies are real businesses, real growth businesses. And these can be as old as 34 years, as one of our holdings is, and they can have valuations based on fundamentals upwards of $200bn.

Believe it or not, today there are more than 1,500 of these unicorns globally, choosing to stay private for longer. And so then the challenge is not so much about finding these companies, it's about getting access to the very best of them. And you can only do that if you build relationships and if you have a strong reputation as a firm. That's what's going to open the right doors. That's how we go from meeting 800 companies a year to investing in just 10 or 12.

LK: So, as you say, relationship-building is vital, because these companies get to decide who invests in them, which isn't how it works in public markets. So can you give me an example of you establishing and developing a relationship with company founders?

AN: Sure. Earlier this year, I travelled to Bogotá and to São Paulo, because I was really curious to hear how the ecosystem of start-ups and private companies are developing in Latin America. That trip was amazing because I learned that Brazil is probably ten years ahead of Europe and the US on anything fintech-related, and the companies there are using this environment to their advantage, to then go global and perhaps dominate.

I met close to 30 companies when I was there, and I reached out to half of them directly myself. The other half, I was kindly introduced by one of the founders of one of our holdings called Loft. He knew exactly who to reach out to that might be a great fit for us as investors, and that [he] thought there would be alignment. And guess what, those were the best meetings that I had. So I came back to my team, and we decided to do due diligence on at least four of them. And this, I think, illustrates the power of the relationships and the trust and alignment that you can have.

LK: So when you're meeting with these companies, how do they know about Baillie Gifford? Is it by reputation or other means?

AN: Our reputation as public investors also filters through to the public side, to the private side, rather. I was surprised that the entrepreneurs knew about our story and philosophy. And this is because of our very visible investments in Tesla, in Amazon, but for Latin American entrepreneurs, also our investments in NuBank and MercadoLibre, where we are sizeable investors, those are also these success stories of LatAm, where they have made the jump to the public side, now worth close to $70bn to $90bn.

What tends to surprise them, though, is how long we've been investing in private companies, over a decade now. We started with Alibaba in 2012, later on with Airbnb in 2015. And I think this is all on the back of being very deliberate over the past 115 years, we've built a brand that is all about one thing, which is investing in growth companies. And now, we're able to back them when they're private, when they go under their IPO (initial public offering), and later on, when we can actually invest even more and be big partners. This is very attractive to founders, as you can imagine.

And as they start to think about their next journey, that leg of growth of potentially pursuing an IPO in the next five to ten years, they start to think about who are the best partners to go along that journey. And so they ask their VCs, their venture capitalist investors, they also ask their board members, who they would recommend, and our name comes up again and again. So we get weekly inbound emails from these founders directly.

So to give you a stat, about 81 per cent of the companies that we invest in come directly from our unique network, and we classify our unique network as the companies that we either reach out to directly, or they reach out to us, that founders introduce us to them, and we have a few aligned VCs as well that know what we're all about.

LK: And I should mention, you're Colombian-born, you speak Spanish, you're more than familiar with the local culture. So when you're doing a Latin America trip like this, does that play to your advantage?

AN: Yes, I didn't expect to speak Spanish in Colombia, but as soon as the founders realised that I did, they reverted back to their natural language. As you can imagine, English is their second or third language. And so in Spanish they were able to really tell me what they were all about, their vision, and it felt like having a genuine conversation, rather than something that could have been lost in translation.

And there was actually a funny story, because I met a founder at a restaurant, and he was there earlier than me, and he asked the waiter, be on the lookout for a gringo, when he goes through the door. And of course, I passed right through the door, passed [by] the waiter, and I said hello to the founder. And you should have seen the shock on his face when he realised that I was the gringo, a fellow Colombian.

LK: That's fun. I want to look at this from a global perspective. Can you give me an idea of the scale of the private markets versus the public ones? Because there are probably more investable private companies out there than many people appreciate.

AN: Absolutely. This is a very large asset class. It's worth over $5tn. So for reference, that's not too far off the $7.9tn that the global small cap index encompasses. Arguably, though, this is where you're going to find the greatest upside, and where we like to believe we're on the hunt for the next $1tn companies that are right now in the making.

LK: So, from our clients' perspective, what's the advantage of investing in private companies via us rather than by other means?

AN: We are looking for companies that are near a growth inflection point, and we can see that as they're starting to benefit from scale, operational efficiency, and as they're on a path to profitability, if they haven't already reached that. So that means that we are far, far from the embryonic stage that VCs typically operate, where they're backing an idea, maybe a PowerPoint slide, or where they have a product that is just looking for a product market fit. In that sense, we are investing very much on the same lines as we do already on the public side. And that's great for us, because we just see it as an extension of what we've always done for the past 115 years.

And that means that, as a team, we get to apply the same analytical frameworks, the same amount of scrutiny that we apply to typical investments. And it also means that we can leverage the potential in the research and insights of 180 investors that are looking at growth companies day in and day out. I like to say that we can have better conversations with this wider lens, because in the same sentence that we're talking about ByteDance, the parent company of TikTok, we can talk about what Tencent and Meta are up to. So we're not missing half of the story, it's a complete circle.

And in the best of cases, we can dare to invest in places like Brazil or India, where the macroeconomics absolutely matters, and then can go to our emerging markets team and ask people that have invested in these countries for the past 20 years. Because if they have a view of how the Brazilian real is going to perform over the next five years, well, I'd like to know that. So this is how we're able to invest in a way that is very different from traditional VCs, or even PE.

LK: PE is private equity.

AN: Private equity, yes.

LK: I want to move onto specific company examples, starting with SpaceX, one of Baillie Gifford's biggest private company holdings. Many in our audience will have seen, last month, when it caught one of its rocket boosters with giant metal arms in mid-air. I think this thing was about the size of a 20-storey building, quite incredible.

AN: Gigantic.

LK: And the company's also recently told us that it surpassed 4 million subscribers to its Starlink satellite broadband service. When Baillie Gifford first invested in the firm in 2018, we couldn't have known it would achieve either milestone, let alone on this timescale. So what I'm wondering is, as an investor, how do you deal with the amount of uncertainty that's involved in investing in a company that's truly a pioneer, doing something that nobody else has done before?

AN: Ultimately, we don't know how every investment is going to pan out. And this is especially the case for companies like SpaceX which, as you mentioned, are daring to do something new, going from zero to one. But at Baillie Gifford, we are comfortable leaning into uncertainty, because that is where you find the greatest asymmetric returns. And by that we mean that the worst that an investment can be, the downside is going to zero. And that is very much a possible outcome, but the upside is unlimited.

There's a quote by Jeff Bezos that captures this well. If you have a 10 per cent chance of a 100x payoff, you should take that bet every time. The way that we think about uncertainty in our investments is two-fold. Number one, we think about different scenarios, the good and the bad, when we analyse a company, and we probability-weigh these outcomes to know if, overall, it is worth pursuing. And the second aspect of dealing with uncertainty is that we are backing excellent management teams that have a proven track record of pursuing the plan, but also that show a bit of flexibility in case the environment changes.

Now, in the case of SpaceX back in 2018, when we invested in them, they already had a working and reusable Falcon 9 system, which is something that no non-government agency had ever achieved. And we had a lot of admiration for Musk as well, for the things that he had built in terms of companies. And we knew that the team at SpaceX was quite phenomenal, with Gwynne Shotwell calling all the shots, for lack of a better word, but doing so excellently. And the culture at SpaceX was also quite special. They've been able to gather the best engineers from NASA and other tech companies for the goal of becoming interplanetary.

Now, it's funny because, when we were doing the due diligence on SpaceX, Gwynne Shotwell was also doing a background check on us, to know if we were worth her time, worth an hour of her very busy day. And so she asked board members at Tesla to tell her a bit more about Baillie Gifford. And we're glad that we met her high bar.

LK: That's a great example of relationship-building being important.

AN: Absolutely. And beyond relationship being important is, as you mentioned earlier, is that in private companies investors can do all the research they want, but ultimately it's companies that get to pick the investors that will go along with them for a long journey. And in the case of SpaceX after 2018, now we can talk about them becoming an elevator to Space, essentially, they have a near monopoly. And we can see that they're in control of their own cost curve. They are deploying bigger and bigger rockets that will get them to different stages of potential.

And now, they're about to enable Starlink, the constellation that you mentioned, so that anybody with a smartphone will be able to access it. So you can imagine starting with text messages to the Internet eventually, what this enables could be fantastic. I think we're seeing that SpaceX is a once-in-a-generation type of asset, and we're privileged to have access to SpaceX and to have this for our clients.

LK: But not every investment is going to reach its full potential, or at least some companies can face major setbacks. How do you deal with that, if a company decides that it has to completely change its business plan?

AN: Yes, absolutely, I think companies need to earn their right to exist, and some of them will eventually fail, regardless of how much capital they have raised along the way. To give you an example, when VCs invest very early, their failure rates are close to 95 per cent, so very, very high. Now, when companies are a bit more mature, in later rounds, which are 'C' and 'D' rounds, which is when we typically invest, those failure rates are around 20 per cent.

Now, given the amount of due diligence and scrutiny that we apply to our own investments, we have about a handful of companies that we have either written down to zero or that have, unfortunately, pursued a path of bankruptcy. But that is in 140 investments that we have made over the past decade, since 2012. So, this is very rare for us.

Now, unfortunately, I'm currently dealing with a situation that is dynamic and evolving, and this is the case of one of our holdings called Northvolt. If you haven't heard of Northvolt, this is Europe's best chance of creating an independent and sustainable battery industry, one where the energy transition is not beholden to Chinese manufacturers.

Unfortunately, our thesis is not going according to plan. Over the past two years, we've seen that Chinese battery-makers have flooded the market with very cheap batteries that are very good. We've also seen that the demand for EVs has slowed down as subsidies have changed, like in Germany. And Northvolt has had some missteps in execution, perhaps expanding too quickly when they should have been focusing on the production and the yield in their core factory in Sweden. They've taken a few steps towards addressing the situation, but ultimately we don't know whether that's going to be enough, and we're bracing ourselves for news.

LK: Okay, so that's one to keep an eye on. If I can, I'd like to move on to some of the Private Company Team's more recent investments, starting with Bending Spoons, maybe a company a lot of people in our audience aren't familiar with. They're based in Italy, aren't they? What do they do?

AN: Yes, usually when I mention Bending Spoons, they think I've watched a bit too much of *The Matrix*, but essentially Bending Spoons is a Milan-based company that has taken advantage of a misconception in tech companies. And this misconception is that software companies are not asset-light. They're just deploying billions into R&D in inefficient marketing and employing really expensive coders that sometimes have salaries in the millions, all to update or maintain a product that has some traction but never goes from good to great, and the potential is never fulfilled because they tend to be loss-making.

So Bending Spoons is turning that model up on its head. It's acquiring these businesses that have potential, that are overly bloated on the operational costs. And so, it acquires them at a fraction of the cost that it took to build them. It also lets go of these very expensive coders and replaces them with equally good coders from Milan, that are a third of the cost. And it uses its internal systems to make the product more efficient, so that it's able to grow and be profitable.

So our thesis is, well, threefold. Number one, there are many targets to go after. Number two, this rhymed with one of our investments on the public side called Constellation Software. They're also an acquisitive company from Canada that acquires software companies, and they've done this really well for decades. By the way, they have a market cap of $90bn, so there's a lot of potential here. And third, it's those systems internally at Bending Spoons that seem to work across different apps that they acquire, so we know that there's a replicable process here that they've been able to do. Have you heard of Evernote?

LK: Yes.

AN: Okay, great, so this is one of Bending Spoons' portfolio companies. They acquired it for a third of the capital that it took to build Evernote. They replaced 70 per cent of their engineers with Italian ones, and they also increased prices, I don't know if you noticed that. But, their user experience is much better because it's running much more efficiently. And now Evernote is growing at 30 per cent and it's reaching record levels of profitability. There are more like it in the portfolio, like Remini and Splice, that do video editing and AI video generation, but this is a very promising investment that we're happy to have made.

LK: So how did Bending Spoons come to our attention?

AN: Bending Spoons has operated outside of the typical VC space for all of its existence, until now. And that's because it's been self-funded, boot-strapped from within. And this is something that we like to see in companies that are not growing at the expense of just investors ploughing in more money. That said, they were nearing a point where they were starting to think about the next leg of the journey, perhaps an IPO in the next five to ten years. So they reached out to Allen & Co., which is an investment bank that we are very much aligned in their way of thinking, and they introduced them to us. And they were very happy with our long-term thinking, and that's what ultimately won the founder over.

LK: That's great. The Private Companies Team first invested in Bending Spoons last year. More recently, you've invested in Cosm, and it has its origins in the firm that was set up by Armand Spitz, who I was talking about at the start. But today, its focus isn't on planetariums, is it?

AN: No, not exactly. So, today, Cosm is now focused on creating a new type of entertainment. They have these planetarium-sized theatres that have 12K-resolution screens that are perfect for seeing live concerts, live sports shows, and also maybe some documentaries. The way to think about them is almost like being emersed in virtual reality, but without the headsets, and with 500 other people that are chanting, that are standing up, singing the National Anthem, and they're even exhibiting some of the behaviours of being in a crowd. For example, doing the Mexican wave in some of the stadiums, in some of the games that they are attending. So they're on to something, and they call it 'shared reality'.

LK: We can show our audience, actually, a photo of one of their giant screens in Los Angeles, with the audience watching a Major League Baseball game. Tell me a little bit more about what this experience offers.

AN: Yes, so, essentially, it's a one-of-a-kind type of experience, where they have controlled everything to make the experience seamless. We like to say this is a vertically-integrated business, because they own the production, they own the cameras, they own the screens, the construction company is Spitz, which is related to [Armand] Spitz from the planetarium. So they own everything, which means that the experience is as good as it gets.

And a few of my colleagues have been lucky to go to the venues in LA and North Carolina, and they said you have to see it to believe it. It's like being in the best seats, regardless of where you happen to be. And as I said, you're seeing these social dynamics develop which you would only really see in a stadium, which is great.

Now, I met the CEO last week, and I asked him, what about Taylor Swift concerts? Because we know that she's travelling across the globe, taking a lot of time away from her career, maybe she could write more music if she only did one big concert and, with all the different Cosm venues all creating that experience as if people were watching it in real life, surely people would pay a lot for that? And the CEO said, actually, we're in discussions around this exact same thing. So stay tuned.

LK: I bet that'd be popular. That's C-O-S-M, if anyone in our audience wants to Google it. You can see some video of what it's like on the site, you can even book tickets there as well. So, beyond Cosm, what else has the team been investing in recently?

AN: We invested in Tenstorrent. Tenstorrent is a semiconductor company that is designing chips for future workloads in datacentres. And these chips are based on a new standard that is very different to the one from Intel, AMD and ARM. Part of the appeal of the investment case for Tenstorrent is its CEO, Jim Keller. Now, very few people will have heard of Jim Killer, but he's an absolute legend in this space. He's had a career for 40 years here, and he actually led Apple's first foray into silicon chips that created these low-powered chips that went on to enable the iPad and the iPhone.

He then moved on to AMD and created a family of chips called Ryzen, which took AMD out of bankruptcy to now being a thriving business. And after that, he moved on to Tesla to lead the autonomous hardware team. So a highly decorated, a very smart person, that is actually acting like a magnet for talent. So this is a case where we have a lot of talent, but also the whole pedigree and a lot of evidence to showcase there's something special going on here.

LK: Okay. I want to talk about what happens when private companies stop being private. One of the advantages that Baillie Gifford has is that we can hold the company until after the flotation, sometimes even increasing our stake if we still believe in the investment case. So, can you give me an idea of the current state of the IPO market? Because it's been a bit subdued, and that's had an effect on valuations.

AN: Yes. And before I do that, I think it'd be great to tell you a bit of a secret about Silicon Valley, [which] is that 80 per cent of these investments, of these start-ups, actually exit through acquisitions. So VCs are more interested in pricing the next round and finding the company that will eventually take them out of their portfolio. We care about the other 20 per cent, the ones that are trying to find an independent path, that have the ability to think about potentially pursuing an IPO in the next five to ten years. We won't push them to pursue that if they're not ready, but this is very much the type of company that we're looking for, which is very different.

Now, in terms of the IPO market, you're right, and, as I mentioned earlier, companies are staying private for longer. That has been in place and it's been a trend since the early 2000s. And this year, we've had about 191 IPOs, which is down from around 300 back in 2021. And some people interpret that as the IPO market being closed, but we don't think that's true. We think actually the IPO market is open for the right companies. And we've had two of our portfolio companies go public quite recently. One of them is Tempus AI, which is using machine learning and genomic sequencing to detect, and hopefully treat, cancer early. And the other one is Oddity, which is using technology and also a direct-to-consumer business model to develop better skincare for people.

LK: Thanks, Alexander. We're going to be coming to audience questions soon, so if you haven't already done so, please do submit one via the 'Ask a Question' tab on your screen. But before we do that, I just want to pick up what we were talking about, IPOs, because not all of these companies have to become public. We invested, for example, in Epic Games, it's been private for 34 years, no sign of it wanting to list any time soon. Can you just explain why that's not a concern?

AN: Yes, it's not a concern because we know that Epic, sorry for the pun, but they're on an epic journey, and this journey could be 10 to 20 years into the future. And we have to think along those timelines to have even a conversation with the management team. And we know that Tim Sweeney, the founder, he is a very special person that is thinking far out into the future, but he is in no rush to go public, and we are in no position, nor do we put any pressure for them to do something that would feel unnatural and that might even dent the potential that they're going after. So if you're an investor that wants control, if you want to tell Tim Sweeney what to do or when to go public, good luck. I don't even think they're going to return your calls.

But for those of you that don't know what Epic is, this is the company that is behind the very famous game Fortnite, which has been around for now seven years, but it's still going very strong with about 100 million active users. What's special about Epic, and what's important here, is that they're trying to create a synchronous, persistent and interoperable digital world, which is perhaps a fancy way of saying the metaverse.

And the metaverse, for us, is just a digital world where creations, assets and the journeys that people take on these games will be around, just as we expect things in real life to be there, tomorrow and [in] 10 years and 20 years. And we also want these creations to have value, so there should be some ecosystem and economics behind these assets.

We think to create the metaverse you need three ingredients. Number one, you need the tool, and this is the Unreal Engine which Epic has developed. This is the tool that enables companies like Activision, EA and Square Enix to develop their games. And this tool is getting better and better, to the point that real life and digital worlds are starting to blur. And this is called photorealism. And that might make it more accessible to people who think that video games are still very cartoony. That might not be forever. The second ingredient, as I mentioned, is Fortnite. It's having a massive reach of hundreds of millions of people.

And the third tool is creating an economy, a creator economy, where they are giving people like you and I, if we want to, [the ability] to create our own games, our own assets, and to monetise them through all of these different worlds related to Fortnight. I've even tried to create my own game. It was very basic, it will never see the light of day, but it showed promise that people can create something and monetise it. And now they have tens of thousands of people earning money this way. So you need the three things: you need the tool, you need the audience, and you need the creator economy, which they're in pole position to succeed.

LK: What was the game that you created?

AN: I don't want to say. It has no name. Essentially, it's one where you're jumping from platform to platform and you're hoping not to miss the next platform and get eaten by a shark underneath. But as I said, it will never see the light of day.

LK: Okay, fair enough. Disney, earlier in the year, announced that it's going to invest $1.5bn into Epic, and I guess that underlines the long-term opportunity for a patient investor like us, doesn't it?

AN: Yes, we were pleasantly surprised by the announcement of Disney, because it's a substantial amount of money to invest in Epic. Now, we know that Disney has historically struggled to monetise its incredible IP, its intellectual property, in video games. And it tried its own studios, closed them down. It's tried different game creators. But to then place all that trust in this IP in Epic's hands, it shows that they are onto something that is quite special.

LK: IP is intellectual property, right?

AN: Correct. So, essentially, what we believe is going to happen is that Epic is going to create a universe for Disney, which could be almost like a theme park of sorts, and there will be a lot of links between the virtual interactions and physical ones. So, for example, say you buy a hat or some costume in the digital version of this theme park, but when you go in real life, somebody hands you over those same exact assets. And there's going to be a lot more interlink, to the point where, in the future, instead of going to Disney.com, you will just go to this digital world and purchase your tickets and anything related to Disney. So that is super-exciting.

Now, what's even better is that Disney are not the only ones entrusting their IP to Epic. There's also Lego that has made that leap. And we think that this could be one of many IP owners that will say,

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actually, let's create this even bigger universe, let's make it interoperable. So could there be a Barbie World, could there be a Hasbro World? I don't know, but the thought of it is super-exciting.

LK: That's going to be fantastic to see these partnerships develop. Time for some audience questions, now. Let's see what you've sent in.

Okay, so, looking at the iPad here, we've got plenty of questions to get through. The first is, how do you think about future cash demands from investment companies and managing liquidity?

AN: We look at the cash runway that all of our investments have. We have a good approximation of when they might need to undergo a next round, and so there should be, essentially, few surprises along the way. Of course, Covid threw a curveball on all of us in the industry, and we were able and happy to back the companies that were early, like Loft that I mentioned earlier. They were the first ones to see the signs of a turning market, and so if we're able to help them get through a very rough patch, they will actually open up many doors for us later, because they know that we're there if there is still a business that is worth backing.

In terms of just providing liquidity for the sake of it, that's something that we don't do. We like to see that there's a reason where this capital is going. And if it means that the opportunity is still there in five years' time, if it's going to be a meaningfully bigger business, and we underwrite for 5x, so if we don't see a 5x return on all the capital that we're investing, we simply pass on this opportunity.

LK: Okay. I've got a question about geography here. How important is which country a private company is incorporated in? Are there meaningful pros and cons of investing in private companies based in different [countries], and how does that manifest in your portfolio?

AN: We have private companies in many different countries, from China to Brazil to Germany and the US. In each case, we have our legal team that is trying to understand the subtleties and the regulation, whether it changes the way that we should be thinking about these companies from a tax perspective. And I am learning a lot here, because it's very different from the public side, where you can just buy the ticker and sleep well at night. Here, it takes weeks of due diligence that, until our legal team is satisfied, we cannot proceed. So yes, these are things that we have to take into consideration, and fortunately we have people behind it.

LK: Okay. I've got a question here picking up on your comments about Epic a few minutes ago. Related to Epic, Disney is focused on return for shareholders. Do you believe they'll force Epic to IPO sooner than the horizon you expect?

AN: I think that would be quite shocking and unnatural for Disney to do. A $1.5bn investment into Epic is substantial, but the valuation of Epic is a multiple of that. So they are sizeable shareholders, but I don't think that they will be, even Bob Iger probably won't be, influential enough to convince Tim Sweeney that is still thinking about going and staying private.

LK: Bob Iger's the CEO, isn't he?

AN: Yes, Bob Iger's the CEO of Disney, and he's been great at convincing IP owners to join Disney, and so one of our big debates is could he convince Tim Sweeney to join Disney? So that is another potential avenue.

LK: Okay. Topical one, here. How do tariffs and geopolitics influence the growth prospects and risk profiles of private companies in emerging industries? And I presume there's a hint of President-Elect Trump coming back into power in the new year.

AN: Yes, we don't know. We know that tariffs do play a big role, especially with EVs (electric vehicles) and battery manufacturers, as I mentioned with Northvolt. And we've seen that the US has been very quick to implement tariffs that are much higher than those of the EU. And that has actually stopped any incoming Chinese manufacturer from taking over and gaining market share in the US, as they have done here in the UK and in Europe.

So, in a sense, they have done the right thing if they wanted to protect incumbents, but I don't know if that's the right thing if they want to incentivise the energy transition. So there's a balance in how you're going to implement tariffs. Beyond subsidies for green technologies like batteries, I think the rest is still yet to be seen, and Trump can be very unpredictable, so we'll watch.

LK: What exit opportunities do you have if you decide the investment case has changed but a company hasn't yet floated?

AN: That's a great question because, as I mentioned, theses can go wrong, and unlike in public markets where you can just sell the shares and move on, here we are tied to the mast. And so if a thesis is going wrong, we will engage with the company on a weekly basis, as is the case with Northvolt. And in the worst of cases, we will sell through the secondary market.

Now, if a company has clearly gone through a distress situation, the thesis has changed, then it will be at a lower valuation. And if it has to go to zero because there is no secondary market, then that is also the risk we take as investors in the public market, in the private market, rather. But as I mentioned, it's because we're leaning towards those asymmetries, we know that an investment can go to zero, and only a handful of them have in 140, but the upside is unlimited.

LK: Okay. I've got a question here related to artificial intelligence. You haven't invested in any of the big private AI companies, OpenAI, Anthropic, etcetera. Is that a deliberate choice, or because you haven't had the opportunity?

AN: We've had the opportunity. It's a deliberate choice to pass on at this moment. It's incredibly exciting to see the innovations that are taking place with AI. I use ChatGPT almost on a daily basis, it's incredible. What we don't know is where value will accrue. Is it to the companies that are creating these foundational large-language models, or is it the businesses that will be built on top of these?

There are still many questions that we haven't been able to answer, whether data and the increasing data means that these companies get better and better or if, by the time that we get to GPT5, the incremental improvement to GPT6 is not going to be that much bigger. So we still have a lot of unanswered questions, and until then we're happy to sit on the sidelines. But again, watch this space. Our portfolio might look different in a year's time.

LK: Okay. A question about process, here. How does Baillie Gifford decide which fund or trust invests in a private company?

AN: That's a great question, because each vehicle has its own guidelines and views as to how long it can invest in these companies. We have investment trusts, like Scottish Mortgage, that have a certain percentage of their assets that can invest in private companies. And so, if they do invest in these companies, they can hold them for as long as possible.

That is also the same case with Schiehallion, which is our Fund 1, the ticker is MNTN. Schiehallion is essentially an evergreen vehicle, so much like Scottish Mortgage, but it's entirely on private, unless they make the jump to public, in which case we can hold them for as long as possible. And we do that as long as, as investors, we can tell that there is a 5x case that is still plausible, and if we don't see that, we will sell. We also have Fund 2, which is a different GPLP fund.

LK: What does that stand for?

AN: General partner and limited partner. Where instead of being evergreen, we do set a timeline as to when we should be thinking about selling the investment, and that is up to 15 years.

LK: Okay. I've got another topical one, here. The new UK government is keen to promote investment in private companies here in the UK. Do you see opportunities in your home market?

AN: We're looking for opportunities wherever they may be, anywhere in the world. And we have seen great companies come out of the UK, ARM being one of them. But in the private space, perhaps Wise Transfer, now known as Wise, that's been a great company to have invested in. And we know that the UK regulators have promoted fintech companies, to the extent that we're looking for new ones, we're still hunting, but cannot find as many opportunities as in Silicon Valley and the rest of Europe.

LK: Okay. One here about ByteDance, which you talked about earlier. What happens if ByteDance is forced to sell TikTok? Does that change the investment case for the company?

AN: That's a great question because it's an ongoing debate across the team. To give you an idea, ByteDance is a collection of many different companies. It has Douyin, which is the equivalent of TikTok but in China. It has Toutiao, which does news as well. And so TikTok is one portion of ByteDance, which is very important, it's close to 2 billion monthly active users, but, believe it or not, this is the part of ByteDance that is not profitable. So if they were forced to sell TikTok or if there had to be some arrangement where it's no longer part of ByteDance, there's a chance that it would be even more profitable than it is now. Right now, it has profit margins of somewhere between 20 and 30 per cent. Without TikTok, these could rise to 40 per cent. So our clients would actually benefit from holding ByteDance now, regardless of the uncertainty around whether TikTok would be sold or not.

LK: This one's a little bit vague but it's, can you give some more detail about how your search process works?

AN: Absolutely. As I mentioned, we meet, as a team, close to 800 different companies, so that is a lot of companies. And we start through different filters. I can go to PitchBook, for example, and look at companies in certain sectors that meet our requirements. We're looking for companies that make at least $50mn in revenue, that are growing 40 per cent or more a year, and that have valuations of around $500mn. So with that set of criteria, we start to filter down the companies that might be within our radar.

We also call, email or reach out to these companies, and some of them will reply, but we also use founders, as I mentioned, through our own network to make introductions. Once we meet them, then we have a process where, if we're very enthusiastic, we're going to write a one-pager on the company. We call that a '1P', and we talk about the financials, the opportunity, competitive advantage. And if the team is enthusiastic, if the decision-makers want to learn more about this, then it goes into our much more rigorous process, which is to write a full-on report, which we call a 10Q, because it has ten questions. And this can take up to a month to get all the necessary knowledge that we need to have a great conversation about it.

This is usually, again, part of the journey, it never ends with a report, and there's a lot more follow-on that's always in the case. But it means that we're very rigorous as a team and there's constant debate. And even if an investor like me [is] very enthusiastic on one company, it's what the team ultimately decides. And if that means that we can make better investments for clients, then that's great.

LK: Okay. And then one final question here, back to Trump again. Does the prospect of the Trump presidency shift the dial in favour of, or against, any particular types of private company investment?

AN: I guess time will tell, but, as I said, we invest in time horizons of five to ten years, and even beyond that, so Trump's presidency gets us 80 per cent through our investment horizon. So we're trying to look way beyond what he might do. Now, Trump has brought in Musk close, into his decision-making, and we don't know if that relationship will last the next four years, or if it's going to last the next four days. But we know that Musk is ruthless when it comes to cutting costs and thinking from first principles. So could he be an enabler for innovation? I'd like to think so. He's got the track record that says so, so maybe I'm optimistic here.

LK: Okay, that's another one to watch. Thank you, Alexander. We haven't had time to answer all your questions, but we'll aim to respond to some of those that we didn't get to on our Disruption

Week website. Details of that coming up in just a minute. And before we do that, Alexander, we're nearly out of time, but can you leave the audience with one final thought?

AN: Yes. It's that private companies are a large asset class, too big to ignore. And these companies are staying private for longer, which means that the value will accrue to those that can have access to the very best of them. As I said, we believe that this is where the next trillion-dollar companies will emerge out of. And we think that our own way of investing and of looking for these companies that are more mature, that are showing signs of scale, operational excellence, and that we are looking at the fundamentals [of], this should tip the odds in our favour. Because it's how we've invested for the past 115 years. I'm personally very excited to be backing companies like SpaceX that, any day now, will enable Starlink, so that anybody with a smartphone will be able to access it. So I think this is what I'd like to say.

LK: That's a great place to leave things. Thank you very much, Alexander.

AN: Thank you for having me. I really enjoyed this.

LK: Excellent. And I hope you, our audience, have enjoyed this event as much as we have. Unfortunately, we aren't able to host tomorrow's session on the age wave due to unforeseen circumstances, but we still intend to bring you that conversation at a later date. In the meantime, please visit our Disruption Week website at **bailliegifford.com/disruptionweek**.

There, you'll find a write-up and recording of Monday's webinar about the US's infrastructure renaissance. And you can also sign up to Thursday's discussion about emerging markets, which is still going ahead as scheduled. On Thursday, we'll hear from investor Ben Durrant about the growing number of world-class companies he has to choose from, and why the asset class is worthy of your attention.

As ever, if you have any specific questions, don't hesitate to get in touch with your client contact, or email us at **disruptionweek@bailliegifford.com**. But for now, I look forward to seeing you again soon.

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