
SHORT BRIEFINGS ON LONG TERM THINKING – EPISODE 18

WHAT I'VE LEARNED IN FOUR DECADES OF INVESTING

MB – Malcolm Borthwick

CP – Charles Plowden

MB Hello and welcome to *Short Briefings on Long Term Thinking*. Thanks for joining us. I'm Malcolm Borthwick, editor of Intellectual Capital at Baillie Gifford.

What does it take to be a great investor? After nearly four decades of investing, our guest today knows more than most. Charles Plowden joined Baillie Gifford in 1983, the same year Margaret Thatcher was re-elected with a landslide, before embarking on a radical programme of privatization and deregulation. Charles started in the UK equities team, was made a partner at 27, founded the Global Alpha Strategy in 2005, and became joint senior partner the following year. The Global Alpha team manages both the Global Alpha Growth Fund and the Monks Investment Trust. Charles retires from Baillie Gifford in May.

Before we start the podcast, some important information. Please remember that, as with all investments, your capital is at risk and your income is not guaranteed. This podcast is being recorded during Covid-19, so Charles and I are both at home as opposed to in the usual Edinburgh studio

MB Charles, you started at Baillie Gifford on Monday 5 September 1983. Do you remember your first day?

CP I remember elements of it. It was my first day working in an office, so quite memorable. I remember being very keen, and I think I turned up about an hour before I was supposed to, which caused some confusion in reception because no one knew who I was.

And what else do I remember? It may not have been the very day, but I remember being given my office kit, which included a slide rule, which is something I'd forgotten about until recently when I was thinking. And of course, this was in the days before hand-held calculators, so a slide rule was how we did our multiplication, division and, particularly, compound growth rates. So, that was all quite fun. But the slide rule, I think, summed it up. It was a very old-fashioned, almost Dickensian, atmosphere.

MB Why did you choose Baillie Gifford?



CP I had a masterplan. I was going to move to London and go and work for one of the big merchant banks there, and I thought the way to get on is to have a proper grounding in investment markets. I thought two years training as an investment analyst would be the best possible training for advising the titans of industry what to do.

And so, when I looked into it, I discovered, rather to my surprise, because I have no connection with Edinburgh at all, that the best training you could get in stock markets and in company analysis was done by a number of the Scottish firms. There were half a dozen firms around Edinburgh and Glasgow at the time, and they gave the best grounding.

And I thought, “well, Edinburgh’s a university city”. I had friends still at the university, and it sounded so much better than trying to do the same thing in London. So, I came for two years, and stayed for 38.

MB Any regrets about not going into investment banking?

CP No. None whatsoever, as it turned out. And it was never really an option, because I was never offered a job in investment banking. Although I did try, as part of the Milkround. Everything I’ve seen and heard about investment banking ever since makes me feel unbelievably lucky that I escaped it.

MB This is rather an open-ended question, but what’s the biggest change you’ve seen over four decades?

CP A very open question, Malcolm, thank you. I think the biggest change, at an industry level, is that investment management has gone from being a rather niche, specialist activity, to a mainstream, huge industry with, I think, and we think at Baillie Gifford, increasing responsibilities attached.

It was always the case, in the investment banks, that the sleepier, more thoughtful people went to work was the investment department, and the best minds always wanted to do merger and acquisition finance, and so on. Whereas, I think investment management has now really taken the crown away from investment banking.

I think there has been two or three separate stages in that. The 1980s and 1990s, for us, were all about growing into defined benefit pension funds, and we were quite successful in that, both in the UK and then, as the 90s rolled on, in North America.

But I think that market taught us some bad habits. It taught us to be quite limited in our ambition, to be very risk averse, never to stray too far from the benchmark or from our peer group. And it encouraged a focus on short-term investment performance, which eventually, we concluded, was detrimental to the client’s best interest.

So in the early 2000s, we cast off some of those shackles and we reset at Baillie Gifford, on the investment side, and we decided we needed to be more ambitious, more differentiated, less constrained by benchmarks and risk measures.

And that has actually worked hugely well. Performance over the last 20 years has been on a different level from the previous 20 years, and we’ve done it largely through taking



risks, but taking conscious risks and well-judged risks, rather than running away from risk. And there's been, associated with that, big internal changes, which we've managed because it's been a continuous process.

MB How would you sum it up in terms of where we are now, Charles?

CP I think now is a very interesting time. And I'm tempted to say this could be our third big reset, equivalent to the move into pensions and then the reset in the early 2000s. Because now, certainly, one of the things that drives Baillie Gifford, but I hope is also driving the broader industry, is a move towards a greater purpose in investment.

All this measuring of your relative return is a zero-sum game, ultimately. For every outperformer, there's an underperformer, and it's not really adding much to the sum of humanity. Whereas, we think investment increasingly has an important role to play in terms of allocating capital to the most deserving, beneficial, helpful sectors of industry.

And particularly with the climate crisis that we're facing, the answer is going to be that companies are going to have to come up with the products and implement them. And we think the investment industry has a major responsibility, a big role, in making sure that the capital goes to the right companies that come up with the solutions, rather than making the problems worse.

We think that investment, certainly in our firm, is becoming more purposeful. We're on a mission, if you like. And we sum it up by what we call 'Actual Investing', which is more focusing on the long term, focusing on supporting the right companies, and making a positive impact on broader society.

MB And what about Monks Investment Trust, which you've managed since 2015? What's changed with Monks since you've started managing it?

CP We are long-term, growth-orientated, and importantly we have a natural attraction to diversification, which means we can be a pretty good, stable, long-term investment trust.

Over the six years, there has been a shift within the portfolio from more cyclical growth towards more, what I would call, secular growth. So mainly technology-focused, whether healthcare or internet-driven cloud computing. And then, very recently, we've begun to consider whether that shift has gone far enough and we should be returning, a little bit, back towards maybe some more cyclical recovery stocks, as we come out of the pandemic.

So, there has been change in the portfolio, but it's evolution, not dramatic. I think where there's been a more dramatic change, and this is a great source of pride for me and for the team, is that, with Monks, we've halted the shrinkage of the company. For 20 years before we took it on, every year the number of shares and issues shrank as the company bought in shares and cancelled them.

The trust had more or less halved in the previous 15 years before we got involved. That has changed now. So now, the shares trade at a small premium to net asset value, there's share issuance, there's more demand for Monks shares than there is



supply of Monks shares, so we've been increasing the supply slightly. And it's growing again. And I think that's been a material shift for Monks, but that's more an outcome than an input.

MB Where next for Global Alpha Fund and Monks?

CP Well, I think where next will almost certainly be very largely more of the same. Both Global Alpha and Monks, we've got very clear succession plans. Two-thirds of the team that have been looking after the money for the last 10 or 15 years remain in post and should be good for at least another 10 years. I think the machine will roll on. The team thrives on change. We see opportunity in change and transformation. So, it's very hard for me to predict where next, but I think more of the same and possibly even better than before would be my answer.

MB I heard you describe how your investment philosophy had changed. I think it was in an interview with *MoneyWeek*, where you mentioned the great phrase that it was "more science fiction than backward-looking analysis". What do you mean by that?

CP I suppose there's less need for a slide rule these days, maybe. What I was meaning by that was about investment analysis, historically, and particularly with us. We were very good at analysing the numbers and dismantling the balance sheet and looking at the cash flows. But of course, your data, what you were looking at, was historic data. It was the last five years' data, and then the temptation was to extrapolate forward.

Whereas, I think part of our being more ambitious with our investment was really a focus that our research should be more about the future than the past. It should be about what's going to happen rather than a microscopic understanding of what has happened.

And so, science fiction is probably the wrong word, but it's imaginative, forward-looking, and it's less based on numbers and more based on what could happen - bigger shifts in behaviour in corporate success and so on. It's more imaginative and less statistical, I think, our approach, our philosophy these days.

MB And is that, in your view, what it takes to be a good investor, to be more imaginative?

CP I think in a way, yes. There used to be a perception that to be a good investor you needed to be good at the numbers. I think you now do need to be more curious. The catchphrase we use about ourselves is "Curious, Patient and Bold". And certainly, I strongly endorse the first two.

Any would-be investor needs to be very curious and interested in the world and how companies work and how industries work, and you absolutely need to be patient, because this isn't an industry or a career that has short-term paybacks. You will be judged over periods of ten years or more as to whether you know what you're doing.

And I suppose, the boldness is being forward-looking and prepared to imagine, to accept, uncertainty. We don't know what's going to happen, but we do think that we can learn enough that we can have a pretty good guess at judging what's more likely to happen or less likely to happen.



MB What would you say is the most important thing that you've learned, as an investor?

CP I think the single most important thing is that you have to be long-term in both your thoughts and your deeds. When you're investing in a company, you have to be confident you'd be happy to own it for five or 10 years and not touch it. So, it's more like a marriage than a first date, if you like. I think that's probably the single most important thing.

As a professional investor though, I have probably learnt more in the last two years than in the previous 10 or 20 years. And, I think, part of that is because this focus on learning and getting better has been ratcheted up a couple of notches within Baillie Gifford. The world is changing incredibly rapidly, and a lot of the old rules that we used to think worked in investment clearly don't work anymore.

I'm thinking of things like reversion to the mean or the pattern of returns, that most of the value in stock markets is driven by a very small proportion of companies and most companies will never be exciting investments. So, you just need to have an absolute focus on trying to find the ones that could be outliers. That's a lesson I've learnt rather late in my career, but I think it's probably the most important one.

MB Have you got any plans or thoughts on retirement in terms of what you're going to do or what you're looking forward to doing?

CP No. Well, there's lots of things I'm looking forward to doing. One of the downsides of working 38 years at the same place means that I've never had a period of gardening leave. So, my plan is not to do much or think much for the first two or three months. Hopefully I'll be allowed to get out of the house and maybe even out of the country. So, initially it's going to be a proper break and a holiday. There are possibly two areas of interest after that. One, I would quite like to help one or two smaller companies, probably private companies, to grow and to develop.

Second - this is a bit more highfalutin - I'm potentially interested in trying to carry on some of the work we've done at Baillie Gifford to help the broader financial sector make a stronger contribution to the environmental issues that we're facing. I do strongly believe that the solution to the environmental crisis will come through new technologies, which are likely to be produced by companies and which will need funding. It may be that there's some role there I could find. Otherwise I will simply read about it and follow it with interest.

MB Charles, I haven't really been at the firm long by your standards, but it's been an absolute pleasure working with you. For someone at the top of the company, I always find you very humble and approachable and I've learnt a lot in a short period of time. So, thanks very much for joining us on the podcast.

CP Thank you, Malcolm.

You can find our podcast, *Short Briefings on Long Term Thinking*, at bailliegifford.com/podcasts or subscribe at Apple Podcasts, Spotify, or TuneIn. If you enjoyed it, please spread the word.



If you'd like to hear more from Charles, you can read an interview with him in Trust Magazine where he talks about his seven pillars of investment wisdom. You can read Trust online at bailliegifford.com/trust.

Many thanks for Lord of the Isles for the music. The track we've used is called Horizon Effect, which was released on Permanent Vacation.

And stay well. We look forward to bringing you more insights in our next podcast.

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