UPFRONT: EPISODE THREE

Financial journalist Cherry Reynard, intermediary client manager Megan Rooney, head of European equities Stephen Paice and investment manager Katherine Davidson discuss the case for emerging market bonds, fashion powerhouse Kering and the Sustainable Growth team's approach to valuing companies.

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

Cherry Reynard (CR): Good morning. I'm Cherry Reynard, your host for Upfront, where we bring you the latest insights on Baillie Gifford's UK funds.

Today, I'll be speaking with investment manager Katherine Davidson, and afterwards there'll be an opportunity to ask Katherine your questions, so do send them in by clicking on the 'Ask a Question' tab on the right-hand side of your screen. We also have investment manager Stephen Paice introducing Kering, one of the largest luxury goods conglomerates in the world.

But first, I'm going to ask Baillie Gifford some of your burning questions. Welcome to Upfront.

So, welcome back, Megan. For those who missed our first episode, Megan is a client manager in the UK Intermediaries team at Baillie Gifford and has been with the firm for seven years. So, Megan, what's on everyone's minds right now?

Megan Rooney (MR): Hi, first of all, good morning. So when we aired our last episode, in July, there was a lot of positive sentiment in the market, we saw a really strong year-to-date bounce and, with that, the Nasdaq rallied. It actually had the strongest first half of the year in over 40 years. But then August came and, with that, market sentiment soured, and so far this month we've seen $3tn wiped off of global stock markets. So, not great.

CR: Not great. So why do you think that is? Why's that happened?

MR: A few things. We've seen more gloomy economic data come out of China, we saw more of that come out yesterday, and there's also been that realisation that interest rates are going to be higher in developed markets for some time longer. We saw that last week at the Jackson Hole meeting with central bankers. It very much looks like everyone's in agreement that it's going to take longer for the Fed to get their 2 per cent target. And with that, there's also a growing debate of where the natural level of interest settles. That's referred to as R-star, and that's the level that neither suppresses nor stimulates growth.

CR: Okay, and anything positive to come out of the summer months?

MR: Yes, there's always a positive, it's not been a completely cruel summer. Thankfully, we've avoided recession both in the UK and in the US, and there's been a lot of chat this summer about

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a particular group of people helping to prop up the US economy.

CR: Okay, who?

MR: You'll have heard of Abenomics, but have you heard of Swiftonomics?

CR: No, I have not heard of Swiftonomics? Tell me about that.

MR: Okay, so this is in relation to Taylor Swift and the impact her tour is having on the US economy. I can see your eyes and I can feel the eyes rolling behind the screen but bear with me. This isn't just any tour, this is a monster tour. It's estimated that the tour will inject $4.6bn back into the US economy this summer alone. And for context, that's more than the GDP of 50 countries combined. So, massive.

And what that looks like, in principle, is that each average concert-goer is spending around $1,300 straight back into US economies, on travel, fashion, eating, drinking. It's had a huge impact. So much so actually that even the Fed has acknowledged it. So yes, quite something. So that's really showing that consumer spending is really resilient, especially among women, as we continue to prioritise spending and experiences and hospitality. And it'll be super interesting to see if Swiftonomics has got a transatlantic effect next year.

CR: And presumably you have your tickets ready?

MR: Yes, for research purposes, obviously.

CR: Absolutely. So let's go back to your point about it being the worst month for stock markets. It sounds like the volatility we discussed last time we met is still very much at play. How are clients responding to that?

MR: Yes, certainly. From speaking to my clients and also from my colleagues, I know that there's still a lot of caution and wariness in the market, and we're seeing it also in numbers coming through just now as well. So industry-wide flows in the UK intermediary are down 38 per cent from Q1. They're considerably down from many years, and we're also seeing increased outflows. And that does make sense. We know that clients are taking money out of their portfolios, especially if they're remortgaging at higher rates, they're looking to make downpayments. So the biggest question that me and my colleagues are getting just now is, "Why would I invest, why wouldn't I just stay in cash or go into traditionally safer assets like gilts?".

CR: And what are you saying? Why wouldn't they do that?

MR: I think for some clients it's worthwhile that we're honest, and that will probably make sense for some clients. If you've got a client who can't handle volatility, who needs that short-term access to cash, that's very much an advisor or wealth manager's job to have those conversations with their clients, and I'm sure for some it will make sense. But it will come as no surprise that we think that if you're willing to embrace some risk at the moment, and you're aligned long-term, there are certainly some opportunities both in equities and in fixed income.

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CR: Okay, let's take fixed income first. Bonds had a torrid time in 2022, but as I understand it, Baillie Gifford thinks there's a better case for them today. Is that right, is that what you're thinking?

MR: Yes, we're in periods of uncertainty just now, clients are certainly asking us more about macro and outlook. And whilst our clients know that we don't do that on the equity side, there are teams at Baillie Gifford that do that, and they do that really thoughtfully, our fixed income team and our multi-asset team. In particular I would highlight the work our multi-asset growth team do. So they analyse a full range of asset classes over a decade, and they're measuring to see how they think they'll perform over cash. They do that on a six-monthly basis, and that impacts our asset allocation.

They've just recently done that, and there are two particular areas they're excited [about]. The first would be structured finance. That's a product, that's like a bond, that pays a floating rate, so can be really useful with higher periods of inflation. And the second would be emerging market debt, particularly in Latin American countries as they're a bit further on in their monetary cycle policy.

CR: That's interesting. What do they say to the view that emerging market countries tend to be more vulnerable to the gloomier sentiment you were mentioning earlier?

MR: Yes, I think there's a bit of myth-busting that has to go on there. Emerging markets (EM) in general have had much more orthodox interest rate policies, compared to developed markets during the pandemic that somewhat over-expanded. And the reason for that is that EM economies don't have the luxury to wait and see if inflation's going to be transitory. As soon as they get an inkling, they start to raise rates, and quite rapidly.

We've seen that with the likes of Brazil, they've done that successfully. Inflation's now two-thirds from where it was at its peak, and the team think that Brazil and Chile will probably start cutting rates soon, joining the likes of Hungary and Vietnam, who've already done so. So, there's still lots of room to grow there, they think. Yields just now are sitting at 9 per cent, they were historically 6 per cent, and then, on top of that, there's also the currency appreciation element, they're excited about currencies, the Columbian peso, Mexican peso, and also the Brazilian real.

CR: Okay, great, so that's the fixed income side. What about equities?

MR: I think it would be a bad day if we were sitting here and we weren't excited about equities anymore. We've just come out of another round of earnings results, some really positive news. The big one that everyone is talking about is NVIDIA. Massive demand for their GPUs (graphics processing units). We discussed that last episode in quite [a lot of] detail about the investment case there, so if any client's wanting to read more about that or hear more about that, I would reference last episode. But we're really seeing that extraordinary demand coming through, especially in our data centres, for the likes of Amazon, Meta all rely on those chips.

But aside from NVIDIA, we're also seeing really positive numbers coming through from some of the companies that have been more beaten up post-pandemic. So, the likes of Shopify, the Canadian ecommerce company, they've cut headcount and they've sold off their logistics

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business, they're growing take rate on the platform, it's really strong.

And another one with a similar name would be Spotify, the streaming music platform. Continued growth, they're moving into podcasts as well, which is great. And they're continuing to get new users, 500 million users now. So both showing really good operational strength, and it's not all that racy growth.

I think another one I'd highlight, just to show the different flavours of growth, would be Ryanair. So, travel is another area. Like those experiences and entertainment sectors, travel's holding up really well. Ryanair are now operating at higher capacity [than] pre-pandemic, and really importantly they're investing counter-cyclically. They've just put an order in for 300 new planes that will hold more passengers, be more fuel-efficient and quieter. Which is great if you struggle to sleep on their planes.

CR: Okay, great. And just before you go, Megan, there's been a lot of noise in the media about private markets, I wonder if you can just talk us through that?

MR: Yes, there's been a lot of chat the last week or so, if the IPO market is going to come back to life, for example. It has died off over the last year or two, as a result of those higher rates. That increases the cost for companies to finance, so we saw pull-back in that. It's important to note that we can only hold private companies in our investment trust structures.

And a nice anecdote that highlights that change in the market would be if you look at the Scottish Mortgage portfolio. In 2021, 14 private companies in Scottish Mortgage went through IPO to list. In 2022, there were nothing. This year so far, there's just one. But that could all be about to change, and that's because SoftBank has announced that Arm is about to list. Now, we don't hold Arm anymore, previously we have held it in Scottish Mortgage for long-term holders. But the reason we're talking about it is because it will be the biggest IPO since 2021, and very much the market and other companies will be waiting to see how that's taken. And that can happen any time in the next month. So, something to watch.

But in the shorter term, another sign to look out for is that, typically, if companies are looking to list in the latter half of the year, they have to do it around Labor Day. That's next Monday, so between now and the next few weeks, if you see an increase in filings, that's probably a good appetite sense-check for where the IPO market's going to go [for] the rest of the year.

CR: Brilliant, okay, it sounds like it could be a really exciting few months ahead. You've got central bank decisions and a potential revival in the IPO market. So that's great, thank you so much, Megan, for joining us today.

And for those watching live, if you have any questions, our Q&A function is on the right-hand side of the screen, which you can access by clicking the 'Ask a Question' tab.

Now, as part of each programme, we'll be featuring an in-depth look at some of the transformational companies Baillie Gifford invests in. Today, we're learning about Kering, whose goal is to support its brand to achieve their artistic and financial potential, in a creative and sustainable way.

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Luxury brands aim to grow desire faster than demand, and demand faster than supply. We don't really need their products, but they are the ultimate social signalling tool. They tap into aspiration, into emotion, and capture the imagination.

Many of the world's most prestigious brands are parts of conglomerates like Kering, a company we have been invested in since 2008. It actually began as a timber trading business and only made its way into luxury in 1999 when it rescued Gucci from near bankruptcy.

Since then, it has grown to include brands like Boucheron, Balenciaga and Saint Laurent. Part of Kering's success has been how it applies a similar formula to each of its brands. It hires a bold creative director and combines them with a talented CEO and a great merchandising team, something which has consistently led their brands to stand out from the competition. You can see this in how Gucci and Balenciaga have defined the luxury streetwear trend, leading them to be ranked the top two brands in the Hottest Brands Index in recent years.

Kering owns some of the most attractive brands in the world that exhibit returns to scale – the bigger they get, the more powerful they become. The biggest brands today can almost dictate what we buy, and their scale can be leveraged across marketing, prime real estate and talent.

Gucci is going through a transition as a new designer comes on board, however it has long been the jewel in Kering's crown. It shows its other brands – and those it will acquire in the future – what is possible when it comes to growth and profitability.

With any long-term investment, it's important to trust the people running the business. Like in many of our investments, this is a family-controlled company. The Pinault family has steered Kering to be valued at more than €60bn and is managing the business to be fit for the future, something which is clear in how it ranks among the leaders in sustainable materials design.

We've already held Kering for 15 years because companies like Kering capture generations of growth, with pricing power and high margins, and yet have minimal competitive threats. This makes it a classic 'compounder', affording us the luxury of time to understand the company, and its management, and the other aspects that make this such a unique asset.

CR: Great. So Kering looks well set to create a more sustainable luxury goods market by 2025, and continue to grow its brands for years to come. Now, to move on, we're joined by Katherine Davidson for a fund update.

So, welcome, Katherine.

Katherine Davidson (KD): Morning, Cherry.

CR: Now, you're an investment manager in the firm and a co-manager on the Sustainable Growth Fund. Before joining Baillie Gifford, you spent your investment career on the Global Equity team at Schroders. I wonder if we can start with a brief overview of the Sustainable Growth Strategy?

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KD: Yes, it follows on nicely from Kering, actually, it's almost like we designed it like that. So, yes, the Sustainable Growth Strategy, we're really trying to do what it says on the tin: invest in companies that are sustainable in both senses of the word. So, firstly, delivering enduring growth over a long time period, and also creating value for society, either through their products or their practices. So we like to say, 'what they do or how they do it'.

And in terms of the key features, this is a 60-stock-ish, well-diversified portfolio with a range of different growth drivers. It's focused on resilience at the stock level and, versus other BG strategies, we're maybe more focusing on the duration rather than the pace of growth.

CR: And you mentioned those two connected investment aims, growth and sustainability, was that the reason behind the Fund's name change?

KD: Yes, the name change back in January, it's a bit of a non-event, really. It was more a reflection of what we were already doing and just making sure that that was clear to clients. And we'll probably spend some time in the next 20 minutes talking about what's changed, but I really want to make clear as well that there's a lot of continuity. This was always a sustainable strategy, it was always best ideas, globally diversified, etc.

The things that have changed are in three main areas. Firstly, the creation of a central desk, so myself and Toby Ross, my co-manager, heading that up, a focus on resilience, and then a higher bar for sustainability.

CR: And can I ask what brought you to Baillie Gifford, and whether you've drawn any initial impressions of the differences between Baillie Gifford and Schroders?

KD: Yes, sure. So as you mentioned, I've been at Schroders my entire career, so I'd done about 15 years there from the graduate scheme, and then I joined BG last September, so coming up on my one-year anniversary. And I wasn't really looking to move, I'd had a great run at Schroders, I'd been working on the global team, and that culminated in the last five years there designing, launching and then managing their flagship sustainable fund. So that was something I was very proud of, my baby really, so I wasn't looking to move. And certainly not to Scotland.
And then around spring last year, I got this random LinkedIn message from a guy I'd never met before. And fortunately it was Toby, otherwise this would be a very weird story, and he said he was down in London pitching to a client, and would I be up for getting a coffee, discussing an opportunity? Turned out, actually, that my fund was pitching against Toby that day, and the Schroders fund actually won it, so that was a very good initial test of character for him.

But yes, we went and had the coffee, we got on really well. I hope he's not watching, because he'll get a big head, but he's a smart guy, super-excited, his enthusiasm is contagious. And we chatted back and forth over a few months and found that we agreed on a lot of important things but not everything, and that we'd make a pretty good team. Then, through that process, the more I got to know about BG, the more interested I was in it as an organisation.

I think the thing that really hooked me was when Toby said there's an investigative journalist on the payroll here. I just thought, that's so cool, that's so different to what other people in the industry do. And then, combine that with all the academic partnerships, work with NGOs (non-

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governmental organisations), and the really close ties they have with companies, I just thought, this is the place where I can do really good research and really good sustainable investing. So, it's a chance to do what I love, do it again with the benefit of hindsight, with a really well-resourced team. And the weather's not as bad as people said it would be.

CR: I'm glad you've acclimatised, that's good.

I wonder if you could talk about a stock that showcases your style as a manager and is kind of a reflection of the type of companies you like to invest in?

KD: This feels a bit pretentious, talking about 'your style' as a manager, but I think over my career I've found that I gravitate to compounding-type names, so quality growth stocks. So not necessarily the really high-octane stuff, but the names that just grind out performance.

And I really think the market's very poor at valuing that, because everyone just assumes mean reversion far too quickly for those kinds of companies. And also, companies that have strength in non-financial areas, so things like their culture or their relationship with stakeholders, because if you can't put it in a model, a lot of people ignore it. So one example would be Spirax-Sarco. I like to call it 'the best company you've never heard of'. I hope you've never heard of it, otherwise that spoils this segment. So, it's a UK midcap steam engineering company. So it's fantastically esoteric, but it makes these products that are really mission-critical but quite low-priced, and they help their customers save a lot of energy, water, electricity, emissions, etc.

And it's not just about the products, though, as I said, it's not just what they do, it's how they do it. It's a business that really is run with a long-term mindset, and it's focused on delivering value for the customer. So, the whole model works by these highly trained sales engineers going out surveying the plants and proposing projects that will work for their customers. And that enables them to deliver this really strong, enduring growth profile over time.

So as I said, it's not stellar, it's about duration. So 7 per cent top-line compound annual growth rate, but over 50-plus years, and they've never made a loss since listing in the 1980s. And people look at it and the pushback is, generally, oh, but it's quite expensive. But it's only expensive on next year's multiple, and that's what I was saying about the market not valuing these kind of steady-growth businesses and their non-financial strengths. It's actually delivered returns of ten times the MSCI All Countries World over its listed history, just to show that compounders can deliver good returns for clients as well.

CR: Yes, absolutely. And how has your approach influenced the portfolio? Have there been any notable changes since you joined?

KD: Yes. Actually in the last 12 months, clients will see that we've turned over about a third of the portfolio. Firstly, that is a one-off, that is not going to be the ongoing rate. We'd expect it to normalise down to sort of 10 [or] 20 per cent. It's been more about the changes I mentioned earlier, so the central desk taking ownership of the portfolio.

I can't claim credit for all of the new ideas that are in there, unfortunately. Most of the sales have been justified by either sustainability or resilience grounds. On the sustainability side, as I said,

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we've got a higher bar for sustainability going forward. We've been reassessing all of the names, and moving on from names where either we weren't convinced that they were genuinely addressing challenges to people, planet or prosperity, or stocks where it just isn't that material.

So, they could be doing good things in their CSR (corporate social responsibility) programmes, but if there's not that virtuous circle, where it feeds back to the investment case, then we don't really want to own it. Because this is not an impact fund, this is not a philanthropic exercise. We have a financial objective and we only want to own companies where the sustainable credentials make it a better business.

So, an example on that side might be St James's Place, which we moved on from in January because we just weren't convinced that that business was solving any particular problems or creating a huge amount of value for its customers. And that's played out unexpectedly quickly with the shares down 20-odd per cent in July as they announced they were cutting fees for new consumer protection regulations.

And on the resilience side, it's fairly straightforward, it's moving on from some of the higher-octane, higher-risk names, especially those with more stretched balance sheets or more binary outcomes. SoftBank, which I know was mentioned earlier, was a name that was in the portfolio when I arrived. To be honest, it's become so large and so complex that I find it hard to have an edge on it, and it's also one of the top ten most indebted companies in the world, so we chose to move on from that.

And some of the stuff we've been buying is a bit less sexy, optically, things like plastic pipes, steam systems, health insurance, etc, but these are all companies that we believe can deliver 10 per cent growth for ten years and good returns for our clients.

CR: And when you joined, any stocks that you weren't particularly taken with, or vice-versa, in the interests of healthy debate between you and Toby?

KD: Yes, we do want to demonstrate we don't agree on everything. So Toby's got a thing for these weird middle-man companies, the air conditioning distributor names Watsco and Beijer Ref, and also there's a chemicals distributor in there, IMCD. [It] took me a while to get my head round those and understand their position in the value chain. And Toby's much more open-minded and diplomatic than me, but there have definitely been some of the names that I've brought forward that he's been less naturally comfortable with.

I'd say the main one has been United Health, which is a big US health insurer, HMO they call them, and it's very much not a Baillie Gifford stock. It's a massive, mega-cap company, it's operating in a highly regulated, not-that-high-growth industry, it's an incredibly complicated, messy beast. But therein lies the opportunity, as far as I'm concerned. I think it can deliver that compounding growth because it plays an incredibly valuable role in a quite dysfunctional healthcare system in ensuring access to affordable care.

So I spent a long time talking to the team about how the US healthcare system works, the role of HMOs, the move towards value-based care, etc. And the final step was to get Toby to speak to the company, and then we started a position in June.

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CR: Okay, great, thank you, Katherine, for all that. Now to answer the questions that have been coming in over the programme.

First question: given what 2022 did to portfolios, how resilient do you feel the portfolio is to future shocks?

KD: Yes, I think we're all, touch wood, can't find any, hoping we won't get a repeat of 2022. But as I've discussed, that's one of the things that we've really tried to focus on in the last 12 months is increasing the resilience at the individual company level, and also, now we have a central desk, taking a more holistic view of the whole portfolio and trying to make sure that we don't have high interest stock correlations, unintended big bets on things. I really believe that the downside capture of this portfolio should be better than it was in 2022, if we were, God forbid, to experience a similar event. [I'll] probably stop talking there and leave time for more questions.

CR: Another one: how important is engagement, and can you give an example?

KD: Yes, I didn't talk about that, but whenever you've got a sustainable strategy, engagement is a huge part of how we influence companies and build relationships over time. It's actually one of the really nice things about being at BG, is the fact that you've built those really long-term, really strong, trusted relationships with companies. It means that you can be a trusted partner but you can also sort of push back on things. And I think we've got a lot more room to influence than perhaps some other asset managers have, because of that.

One example, one of the earliest examples, when I arrived, was Starbucks. Which was the first name that we bought, as a team, in the Fund. And I can see you're looking sceptical, because….

CR: Yes, it's not what I would naturally think of as…

KD: It's not an obvious holding for a sustainable strategy, and I had the same initial thought, I was like, I need coffee, but I wouldn't say that this is solving a global challenge, particularly. But Starbucks is in there as a business practices case. Its product's not impactful, but the bit that I didn't realise is they do this really interesting work with coffee farmers. They're the biggest coffee buyer in the world, and they've done a huge amount of grassroots work, setting industry standards, basically helping remove child labour from the supply chains, ensuring price stability. That's all quite underappreciated.

But that's not what anyone thinks of when you say Starbucks, and especially in the last 12 months, the big issues, publicly, have been around unionisation and union-busting activity in the US stores. So we knew that that was something we needed to understand better before we started a position. So Toby went out to the Capital Markets Day in October last year, met a whole bunch of executives, and also board members which was really important, got their perspective on that issue. And I think the reassuring thing for us was that they didn't try to brush it off. They were like, yes, we know that we didn't do a great job of managing through that period, we're disappointed that so many people have felt the need to unionise, and I don't think we've handled that very well.

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So they gave us some areas where they were working on it, some KPIs to monitor them on. And we, and many other shareholders, voted in favour of a shareholder resolution at their recent AGM in favour of having a formal review of that kind of unionisation process. So that will be something to watch as well.

CR: It’s encouraging when companies admit their mistakes, isn’t it?

KD: Yes.

CR: So, next question: how do you think about valuation, as in, are you trying to achieve a certain growth hurdle?

KD: I’m going to say there are two slightly different questions, there. In terms of the growth hurdle, we’re looking for an average of 10 per cent growth annually for ten years. So that gives you roughly 2.5 times over a ten-year time horizon. But we’re looking for companies where that isn’t already in the price, which brings us to the valuation piece. Because I think, especially when you’re looking in the sustainable space, you spend a lot of time thinking about whether something is a good company, and then you have to think about whether it’s a good investment. And it needs to be a very different decision.

So, we have a long wish list of companies, of good companies, that we’d like to buy, but we’re only going to put our clients’ money in them when the valuation is attractive and we can see reasonable return prospects. This is another thing we’ve done in the last 12 months, is bring a little bit more consistency around the valuation profile and making sure that we’re disciplined there.

CR: Okay, next one: from the factsheet, I think one of the biggest holdings is Workday. What is that?

KD: It’s a massive company now, actually, but it’s not one that you’d come across that much as a retail investor, I guess. I’ve come across it because it’s an enterprise software-as-a-service business, so it mostly does HR software. We use it at Baillie Gifford for booking our holidays, organising our appraisals, etc. They compete with the likes of Oracle. And it’s a fantastic investment proposition because it’s taking share from those legacy guys, hand over fist. It’s cloud-native, it’s incredibly disruptive and innovative.

And this is another business practices case from a sustainability point of view. They’re not just providing these products but they’re leveraging their very powerful position. So, they’ve got relationships with a huge number of massive corporates now, and they see part of their role is in helping those companies solve challenges around human capital management, in particular in diversity and inclusion, so things like helping them assess their pay equality and stuff like that, and spreading best practice between their customers. And actually the BG HR team went out to see them in San Francisco last year, to discuss our D&I (diversity and inclusion) challenges and our strategies for addressing those.

CR: Okay, interesting. And final question, and then I can let you go: how does the Sustainable Growth Fund compare to other Baillie Gifford global funds, and where would I put it in a

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portfolio?

KD: Obviously, you'd put it heart and centre of the portfolio.

CR: Absolutely.

KD: But no, jokes aside, the risk profile, the diversification, the number of names, it's designed to be suitable for a core allocation. In terms of where it sits in the line-up, the one we most frequently get asked about is Positive Change, a fantastic sister strategy, very happy to benefit from the halo effect there, but it's actually quite different in terms of what we're trying to do.

The main difference is that this is a single financial objective strategy, so we only have a performance goal. Whereas PCF (Positive Change Fund) is a dual objective, so they've got an impact goal and an investment goal. So it depends where you want to be on that spectrum, impact/sustainable.

Versus some of the other mainstream funds at Baillie Gifford, I would say that we are higher-bar for sustainability, it's not just exclusions or do-no-harm-based, it's really looking for solutions providers, so sort of sitting between those two. And also in terms of the risk profile, we are a 60-name portfolio versus PCF at 30, a slightly less spicy position.

CR: Okay, great, we'll wrap up there. Thank you so much, Katherine, for all those insights today.

And thank you all for joining us. To find out more about the topics we've discussed on the programme, please do go to the website, **bailliegifford.com**. The UK Intermediaries team are here to help, so get in touch if you have any questions. Until next time, goodbye.

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Annual past performance to 30 June each year (%)

	2019	2020	2021	2022	2023
Baillie Gifford Sustainable Growth Fund	8.7	33.0	39.2	-37.9	7.6
MSCI ACWI Index	10.3	5.7	25.1	-3.7	11.9
Target*	12.5	7.9	27.6	-1.8	14.2
Investment Association Global Sector	7.5	5.4	25.9	-8.8	10.8

Source: FE, Revolution, MSCI. Share price, net of fees, total return in sterling.
The Sustainable Growth Fund is based on Class B Acc shares.
*MSCI ACWI Index (in sterling) plus at least 2% per annum over rolling five-year periods.

Past performance is not a guide to future returns.

The Sustainable Growth Fund aims to outperform (after deduction of costs) the MSCI ACWI Index, as stated in sterling, by at least 2% per annum over rolling five-year periods. The manager believes this is an appropriate target given the investment policy of the Fund and the approach taken by the manager when investing. In addition, the manager believes an appropriate performance comparison for this Fund is the Investment Association Global Sector. There is no guarantee that this objective will be achieved over any time period and actual investment returns may differ from this objective, particularly over shorter time periods.

Some of the stocks mentioned in this communication may not be held in your portfolio. 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 **Baillie Gifford Sustainable Growth 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 invests in emerging markets where difficulties in trading could arise, resulting in a negative impact on the value of your investment.

- The Fund has exposure to a foreign currency and changes in the rate 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'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.

- The Fund invests according to responsible investment criteria and with reference to the ten principles of the United Nations Global Compact for business. This means the Fund will not invest in certain sectors and companies and, therefore, the universe of available investments will be more limited than other funds that do not apply such criteria/exclusions. The Fund therefore may have different returns than a fund which has no such restrictions.

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

Important information and risk factors
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