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Hello and welcome to this live programme from Baillie Gifford. The latest in a series of webinars where we talk to the managers of the business' different investment strategies. Today, we're talking to Iain McCombie, comanager of the Baillie Gifford Managed Fund. My name is Amy Maxwell and I'm from Citywire and I'll be talking to Iain about how he runs the fund. Hello Iain, welcome. Thanks for joining me today.

Good afternoon, Amy. Afternoon, everyone.

So, it's obviously been a tough for years for growth investing, with the raising of interest rates making it a lot harder for businesses to operate. Is there still a case for growth investing in this climate?

The short answer is, yes. To take your first point, I know it's been a tough time for holders of the managed fund and we're acutely aware of that and obviously, we want to do better in the future. As a holder of the fund myself, I'm very aware of that. I think the key point is that this fund has been around since 1987. It's been through a lot of cycles over that period of time, but we've stuck to our tried and tested way of investing. That's not going to change. I'd love to promise that there's going to be some magical way to turn it around. Actually, the way we think we're going to turn it around is keep doing what we've always done, which is find great companies with above average growth prospects and to own them for a long period of time.

We think that what's happening at the moment, as you said, inflation is high, interest rates are high. It's all a bit doom and gloom, but actually, if you get into the portfolio itself, look at the companies. For example, if you look at the growth in our portfolio, we think it's about 6% higher than the market. So, there's a lot of good things going on there, which I think are not being appreciated by the market. Also, there are also pockets of things that are doing really well, which the market is getting quite excited about, for example, in AI where we've got holdings in that area like Nvidia and other businesses that have performed very strongly. So, the thing I would say, Amy, is it's not all doom and gloom at the moment.

I suppose there might be some buying opportunities in some overlooked sectors.

Yes. I'm sure we're going to talk about that later, in terms of individual stocks, but we're always looking for ideas. What we're always trying to find are businesses which we think have got above average fundamentals over the next five or ten years. I think the thing I always say is what is different about growth businesses is that they're always trying to look around the corner for an area that people haven't thought about in terms of growth. There are a lot of our businesses like that. So, from a bottom-up basis, the way we try to invest, there's a lot of optimism, actually, in the portfolio, despite all the doom and gloom you read about in the newspapers.

This is the balanced fund. You take a balanced approach. So how does the new economic environment play into your asset allocation within the fund?

In the managed fund, we keep it very simple. We have three asset classes. Equities, bonds, and cash. Equities, I think, give us the growth and the bonds and the cash give us the ballast. Obviously, bonds give us a nice income and cash can give you some income now, it also gives you that option value before we can invest it if we think there're real opportunities elsewhere. So, where we're positioned at the moment, our standard position is to have 75% in equities. That's our standard weighting. Actually at the moment, we're a bit above that, we're about 78%. That reflects our bottom-up conviction. We're not top-down. People may have heard that phrase. We do asset allocation a different way, we do it bottom-up, which is with the individual managers that run the different regions get together.

What we're seeing is that the regional managers in the team, including myself, are finding individual ideas that are very exciting. Now, Steven Hay, my comanager on the managed fund is also more optimistic about the bonds because the yield's been a bit more attractive. So actually, our bond position is about neutral. So really, where we're underweight at the moment in terms of our target position is cash. Cash is about 2% at the moment. So that's the way we do it, but we're keeping it very simple, equity, bonds, and cash. We think that's all we need to deliver good return over long-term.

We talked about an evolution in the investment climate. Let's talk about an internal evolution in the way in which you run the fund. I understand, from mid-November, the fund is going to make its objectives towards net zero much more explicit. So, can you give me a little bit more detail and indeed, our viewers a little bit more detail on that?

I think the first thing to say, Amy, is that we're not changing the overall objective of the fund, which is to generate capital growth over the medium to long-term. That's not changing. We're also cognisant of the fact this fund has been running for a long time, but we also have to evolve and we have evolved over time. The one that you've exactly highlighted that we are proposing to change is to say that by 2050 we want the whole portfolio to be aligned to net zero. Now, people are probably wondering, what does that mean for the portfolio? What changes will come out of that? The best way to explain that, Amy, is at the moment, if you tot up all the equity holdings in the fund and all the bond holdings, you come up to about 344 positions, which is also a very important point about it's a very well diversified portfolio.

When we adopt this change in mid-November, of those 344 names, we're going to have to sell one. This is a very small change in the portfolio. Now, you might say, why is that? Again, as growth investors, we're forward thinking, we're trying to invest in businesses that are on what I call, the right side of history. We're already doing that. Therefore, in terms of the portfolio, you're not going to see any real change at all, but we think it's very important because our clients have been asking about this. That's why we're nailing our colours to the mast. I should say, Amy, that the real thing to me as an investor, it's not about the net zero target, it's about working with companies and encouraging companies, how do you get to net zero and that's the really challenging and interesting thing at the moment.

So essentially, this was already baked into the process and it's just one position that didn't apply with the spirit of net zero.

Exactly. So, 99.65% of the portfolio doesn't change at all.

Let's stay on this topic of sustainability. Last time I spoke to you was a couple of years ago actually, and you were very interested in European heat pump manufacturer, NIBE. I understand you've recently sold that holding. So, can you tell me the backstory there?

It's well remembered, Amy. It's a Swedish company that we've owned for a number of years. I think it illustrates two points. One is sell discipline, which I'll come onto in a second. The second one is that a great company may not always be a great investment and I think that's a really important point in general investing. So, the first point, [marker 0:10:00] really, on sell discipline is that we're long-term holdings. Our portfolio turnover in the fund is very low. That doesn't mean that we're not looking at companies and having that discipline of saying, it may have been a good investment, but is it going to be a good investment in the future? You want to keep kicking the tyres to make sire it still makes sense to own it.

Now NIBE is a good example of that. It's been a fantastic investment for the fund and for the holders since we've owned it. The reason for that, as you said, it makes heat pumps. It's mostly in Europe. I know it's very controversial in this country, but really the growth is coming from Scandinavia and north Europe in particular. That's been growing very strongly. Then as you hinted, the fact that everyone loves a green stock, it's multiple has rerated. So, you had great growth and you've got a rerating on the stocks. The shares performed really well. That's fantastic, but what you have to keep asking yourself is, that's a great company, but is it on a forward-looking basis going to be a great investment? We could see some signs that-, although everybody loves it, there are some signs that there's a bit of competition coming in, which might I think, impact margins.

There's been some legislative changes in one or two markets which, perhaps, might not make it as attractive. So, we said, actually, although we like the company a lot, we like the management, we think a lot of the good news is now baked into the price and we think it's the right time to sell. So even though it's a great company and it's very green, we think it's the right thing to sell and that's what we've done.

You did replace it with a similarly green stock, but less well-known and based here in the UK, I understand.

We didn't actually replace it. I wouldn't think about that. The way we try to think about it is we're trying to find individual investment ideas that make sense. One company we've owned for actually, a bit longer, a few years now, is a company called Volution. Now, you may not have heard of that name, but if you go into somebody's bathroom, you might see a brand called Vent-Axia or National Ventilation or Manrose and they are all Volution brands. So, they make fans for bathrooms, but they also make clean air solutions for much bigger-, for apartment blocks or for houses and this is a fantastic business. It's a very cash generative business, it's growing. There's a lot of legislation that is pushing its way-, and it's rating is far lower that NIBE's. So, I think it's still very, very attractive and it's growing very well internationally. About 50% of the business now is international. So, it's a great UK business with great opportunities to grow in years to come and it's one of the big players in this market.

We touched earlier upon this idea of a stock being hyped. I wanted to touch upon another one, Moderna. So, thanks to the pandemic, of course, it has an incredible run. You're sticking with it and you can see much longer-term value here. So, can you explain what is the evolving investment case for Moderna?

I think this is a classic example to me, Amy, of the short-term against the long-term. As you said, they had a huge boost from the COVID vaccine and obviously, huge demand that came from governments to inoculate the population. So that was a huge win for them and obviously, they made a lot of money from that. Now, that's obviously, reversing now because obviously, governments are not buying millions and millions of the vaccine. Therefore, that part of the business is declining quite dramatically. In the short-term the market doesn't like that, but actually, what we think is much more important is their technology, which is what's behind why the COVID vaccine was developed. It's this mRNA technology.

Before COVID hit, the company had a very interesting pipeline of drugs using this technology, but that got parked by the company when COVID hit because it had to focus on this. This was the key thing to focus on. I think we all look back and say thank goodness they did, but I think longer-term, what is exciting is they're now getting back to obviously, call it the day job of using this technology to find novel solutions to big problems like cancer and things like that. They've got 30 big drugs that are in the pipeline that they're developing at the moment. Now, I'm sure that a lot of people know that this doesn't happen overnight. This takes time. It takes years, but the great news is that Moderna have about $15 billion of cash on their balance sheet. So, they can fund this for a number of years.

So actually , we still think the technology is very exciting. The data from some of these trials for some of these drugs has been very promising. So, it really backs up why the COVID vaccine worked so well, but also, why we think it's got huge applications elsewhere in the world. So that's why we're sticking with it. We think long-term, this company has got amazing opportunities for growth.

I suppose that cash buffer you talk about, that $15 billion, is really going to be pretty useful in a rising interest rate environment where many companies are struggling.

I think for them, that's a Brucey bonus. The fact you get some interest income, but it's not the real story there. I think you're right. In terms of balance sheet strength, I think it's a very important point more generally. If you look at our portfolio in general, it's got much lower debt compared to-, in terms of debt to equity, compared to the market. So again, that's one of the things that we like about our growth businesses is, can they actually realise the potential of that growth? To do that, you often have to have strong balance sheets, good free cashflow from the businesses and that's really what we're doing. So, there are a few names that perhaps, might not be there, but most of them do and that's really important to us.

It gives you that comfort when times are tougher. Interest rates are higher and economic conditions are a bit trickier in the short-term, but you can get through that and I think that's really important for the long-term.

This idea of endurance runs through a number of the fund's other holdings. Many of which our audience will probably be aware of, they're household names. So, can you tell me a little bit about what's going on in M&S ang Gregg's?

I think they're good ones to talk about, Amy. I think a lot of people think of Baillie Gifford as being all about technology or biotech and whizzy, disruptive names. Actually, what we've always said is there's all type of growth. We're very growth agnostic about where the growth comes from and I think these two companies are interesting because particularly at M&S. We bought it a couple of years ago and we hadn't owned if for over 20 years before that. So, this is quite a departure for us. The reason for that is we could see a potential turnaround of the company. The management team, we think, have done a really good job of addressing some of the issues. Obviously, they've got a great food business. They've now got a tie-up with Ocado for hopefully, in the long-run to solve the internet food shopping area.

What is also interesting and to our surprise, if I'm honest, Amy, how well we think they're starting to turnaround their traditional estate. To give you an example of that, we get out, we don't just sit in our office in Edinburgh and twiddle our thumbs and watch the world go by. I went down to Liverpool to see their new store there and to meet the chief executive. That's a really interesting example, I think, if people know Liverpool, they had a store in the centre of town, been there for over 100 years. Getting a bit tired, that area. A bit gritty would be the polite way of putting it. They've moved about five minutes away from that, to the one shopping centre. Very different part of town to be frank.

It's in the old Debenham's store, but what's interesting is it's about 20% smaller than the old M&S store, but because it's been repurposed with what they think is what customers want, it's selling about 30% more since it opened, compared to that. So, 20% smaller in terms of size, but 30% more sales, which is really quite exciting. I think there are more stores, not just Liverpool, there are other stores like that where they can do that. We can all think of stores and high streets that are looking a little bit down at heel, but I think they're working their way through these stores, moving them to out of town or to a better location in the city centre and they reap the benefits of that. I think it's really exciting for me that I think M&S are starting to get its mojo back. It's not perfect yet. There's still a lot more to do, but there's lots of interesting green shoots there.

It feels like it's being a lot more strategic and there's a lot more optimisation of the assets for which they hold.

Yes. There're a lot of interesting things going on. The management team have got a lot on their plate and some people would say, we've heard these types of stories before, but I think they really are grasping the nettle and I think the pandemic really forced them to take some tough choices. Again, if you look at the good businesses, it's really performing strongly. They invested in price, which made them more competitive. A lot of people used to say, M&S is really expensive and they've had a pleasant surprise when they've been coming in recently. That's why basically, Waitrose has been struggling because M&S is basically kicking their butt in the food area. [marker 0:20:00] I think that's really exciting.

You also asked about Gregg's. which is a very different story. It's the high street's takeaway chain, food to go. You could say, what's the growth story here? Well, I think there's two interesting things. One is that they have done a fantastic job of turning themselves away from being a bakery. That's what they used to be. it's basically, a good to go store. So, sandwiches and hot food and savoury food or sweet food. It's great, but what's really exciting and I think what people haven't really grasped yet, is what they're doing in the evenings. Now, people think about bakeries, that you go there in the morning or you maybe go there at lunchtime and buy. Early afternoon it all tails off.

What management have done for a couple of years with more confidence is say, actually, we've got these stores, we're paying rent on them, why can't we use them a bit longer? Why can't we open in the evening? They've been experimenting with different types of food there and they're actually now finding success. You may be amazed to hear that about 9% of Gregg's sales now come in the evening. So that's the thing. It's not necessarily people eating vegan sausage rolls in the evening, I'm sure a few people do, but it's things like pizzas or chicken goujons. As one of my colleagues said, they're not addicted to warm Yum Yums. So that's the sort of thing that's happening, which is really exciting for them and I think there's still more to go there. So, I think it's a great growth story that's still being underpriced.

It's taking that early morning bakery model and turning it on its head and opening all hours with a varied menu. So again, this theme of optimisation. Of sweating all the assets.

Exactly. We all know there's a big takeaway market in the evening. It's not as though this is a new market, but they said, why can't we be in this market? People love our products at lunchtime, why can't you have a slice of pizza on the way home if you haven't got anything to eat, so why not? I think that's really resonating with people. So, we're very excited about the opportunity there.

Gregg's is all about exploiting new markets. I understand another holding, Autotrader. This is in the business of doing some ingenious things to leverage it's cornering of the second-hand car market. Can you tell us more what's going on here. What's exciting?

It's a great example, like I said earlier, of companies that are able to look around the corner and find new areas for growth. So, the core business of Autotrader is second-hand car listings, like you said. It's great because for you, as a consumer, let's say you want to get a green BMW Series 5, you don't have to look in your neighbourhood, you can look pretty much, across the whole country. If you're prepared to travel, you can find that car and that's great. It's great for you, but it's also great for the second-hand car dealer because it expands their customer base that they, perhaps, didn't have in the past. What Autotrader have been doing is a couple of things. One is saying, what else can we do?

One of the things about second hand car sales is finance and they've been helping getting people preapproved for car finance. They get a small cut of that.

Again, it's not big, but it starts from nothing. So actually, that's quite attractive. Also, what you said, which is really interesting is, it's a new car market. Now, I'm sure everybody knows now the car market works in the UK. There're car dealers. You go into a car dealer, whether it's in Edinburgh or down in London, you might get a different price, depending on what the car salesman is feeling like and so on or how hard you bargain. Actually, what's really exciting at the moment is there's a big change happening that some people may not be aware of. What Mercedes Benz have started to do and we think other brands are going to do this as well. Is to say actually, we're going to have one price. Mercedes are going to set the price for a new car across the whole of the country.

So, if you go into a showroom down south and I go into one in Edinburgh, we're going to get the same price. That is really quite interesting for something like Autotrader because then why can't you sell in Autotrader because actually, if you're selling a car the same price, why can't they do that? I think the other thing that's interesting is the power of brands. I think the car brands think they have a tremendous brand themselves. So, they think they're Mercedes, they think they're a wonderful brand and I'm sure you and I and the audience, well all know what Mercedes Benz is, but if you're buying a new car, do you only look at Mercedes because you like Mercedes? Of course, you don't. You'll probably look at other brands as well.

You'll look at BMW or Lexus or Range Rover and you're going to go to a site like Autotrader that gives you reviews and comments and compare and contrast. So actually, we think this model might actually be quite interesting for Autotrader. I'm not saying this is going to be a huge market for them, but again, it starts virtually at zero. That's what I like about this management team, they're always looking for ways to build on their strengths and to make their site ever more relevant for people who are wanting to buy a car.

It certainly seems like there's plenty of reasons to be optimistic about what's going on within the portfolio. We're reaching the end of our interview time. I was going to turn to the audience, we've got some questions that have come in. This is quite a macro one, I know we've talked about how you're very bottom-up. "How likely is it that there'll be a global recession over the next two years and how might that effect your investment strategy?"

The honest answer is, I don't know.

You don't have a crystal ball.

That's not our game. We don't play that trying to waste a lot of time trying to speculate on what's going to happen in terms of recessions and so on. What we do know is interest rates going up is going to slow economies down and that will have some pressure and that's true, but we've been around since 1987. I don't know how many recessions of near recessions have been predicted. There's been far more recessions predicted then there've actually been the case. We've just had this thing in the UK no that long ago, where basically, they found another few billion pounds because growth wasn't quite as bad had people had thought. This is the sort of thing why we don't spend a lot of time worrying about economic growth and so on.

Again, what we're trying to look at is what I said earlier about does a company have a good management team? Does it have a good balance sheet? Does it have good growth opportunities? If it means there's a tough couple of years, well that's not a bad thing and sometimes, actually, it's actually very good for good companies because usually, it's the weaker companies that struggle in tougher times and actually, that plays to the strengths of the businesses which we think are winners over the long-term.

There's been another question along the same lines. "Given the fact that the world has changed over the last few years with wars, inflation, etcetera, why has the investment philosophy not adapted with it, sticking instead with what's always worked in the past?" It feels like maybe we should emphasise, go into a little bit more detail around the opportunity to grab market share hen the chips are down, I suppose.

It's a good question, but again, if I can give a robust answer. There's been wars and recessions and worries ever since this fund started in 1987. I could put up a chart and show you every crash and terrible war. Unfortunately, whether we like it or not, these things happen far more frequently and we forget about them and we just worry about the thing that's right in front of us. So, I think in some respects, the bad news is, there's always bad news. The good news, I think is, that people never talk about the things that are working in the world. The good things and interesting things in terms of what's happening in healthcare or AI, which we think are creating opportunities for the companies that want to seek them. To my mind, just because you have the same philosophy doesn't mean that your portfolio doesn't change over time.

For example, you go back 20 years, we had a reasonable 15% or something in energy stocks. We've now got about virtually nothing, very little in energy stocks because we don't think the growth prospects are that attractive now, as things have changed. That's always going to happen. I'm sure the top ten holdings in the portfolio in ten years' time will look very different to what they are now. We're always looking for companies that have got the growth opportunity. This is the beauty of capitalism. Markets change and people are thinking about, how can I build a new business? What's exciting for us is that the barriers to entry, I think for growth, are lower than they've ever been in a long time because of things like Amazon Web Services and so on, you can power a business much quicker than you could do historically.

I think that hasn't changed and that's what we keep doing. Ultimately, what we're always looking for is above average growth from our portfolio companies. What I would say is, that means that they're always evolving the portfolio. That's why they portfolio turnaround's about 15% per annum, roughly. There's always change coming. Some things don't work, you make mistakes, you move on from that. Equally, there are new opportunities coming [marker 0:30:00] in all the time and I think that's the exciting thing about it.

That feels like the opposite approach to the suggestion that you haven't changed the strategy. It feels like you are always assessing what makes it in.

The framework is the same, but the way you look at it, is the business exciting, can the management realise that potential? That business could change. Things become possible that weren't possible some years ago. Who'd have seen the growth of things like Facebook or Amazon from very humble beginnings to these giant companies? These are exciting things. The fact the emergence of China into the world economy. What does that mean and the opportunities there? The growth of Asia more generally. I think there are lots of good things happening in the world, as well as things to be worried about. As one of my mentors said a long time ago. "Why do you want to be a growth investor?" He said to me, "Do you want to be part of it or do you want to sit on the sidelines and watch it and not own it?"

I think in the long-term, even though it might sound a bit difficult at times, I think you want to be a part of it because in the long-run, you should be an optimist. If you look at long-term returns for the stock market, you should be an optimist. Then it's very easy to be a pessimist if you watch the news and listen to very articulate people telling you why you're all doomed. I'm a Scotsman, I have to fight that, it's in our DNA to be gloomy. Actually, it's the wrong way to think about it for investing.

We've got another question here, "How do you deal with correlation in the portfolio?"

It's a very important point. You want to make sure you've got proper diversification in the portfolio. So, we have internal guidelines to make sure that we're not too concentrated in certain areas. We also have an independent risk team that do quarterly risk reports, which are looking at the rules might say you're okay, but are there any themes in the portfolio that we're looking at, that are correlated that might not look obvious, but that could be a situation there. So, we're always trying to look at these things, but you can never guarantee it, Amy. You know, models don't always tell you everything, but we're doing as much as we can and that's why we have a very well diversified portfolio. Unlike some of Baillie Gifford's other strategies, it's not too concentrated. Our biggest holding is about 2.5% of the fund. It's not that concentrated, it's well spread and I think that's really important for our managed fund clients.

We've got quite a specific question here on, "What have the inflows and outflows been like over the last 12 months?" How have you been managing the ebb and flow or funds?

You put it in context, we had pretty strong inflows 2018, 2019, 2020 and we've had outflows in the last two and a half years. In terms of how you manage it. We manage it on a daily basis. We look at our split to make sure that if we have cash inflows and outflows, that we're making sure that the portfolio is really targeted to our targets. I talked about our equity, bonds, cash weightings. We set that quarterly and we want to make sure that we're staying in line with that. So, if, for example, you have some outflows, you may have to trim your equity and bond positions to make sure you stay within the agreed limits. That's how you manage it. Both inflows and outflows.

We've got one viewer here, he says, "Just finished reading an excellent history of Scottish American Investment Trust." What struck him is how many times events dictated investment results. "Do you agree or disagree?"

It's true in the short-run. That's a great question and it's a great book if people haven't read it. I think clearly, some events can be more important and I think what I would say is that what it doesn't always say is there's a lot of events that don't actually matter. At the time, you and I would be sitting talking in the studio, this is the big worry at the moment. Actually, in the long-run, people have forgotten all about them. So, I think that's the tricky thing I would say about events. Again, that's why we take this long-term view. If you get pushed around by what's happening in the short-term, you're not really thinking straight. It's very easy, I think, to be influenced by what's happening most recently, but actually, what we're trying to do as investors, is step back and think about where could this business be in five years' time and why do you think it's going to be in that position?

Now, we could be wrong in that, obviously, that's the job. We're going to make mistakes on that, but we think over the long-term, that has set us up for why we have outperformed over that 30-plus years as a fund because if you get blown around by events, in the short-run that can help, bit if you react to it. I think that's the key thing and what I'm trying to say is if you sell things because you're reacting to events, that's disaster for you, I think, because you're not actually doing the right thing for the long-term. It comes back to one thing we haven't really talked about, which I think is so important and I think I've talked about it in good times. Certainly, in bad times it's really important too. It's patience. Patience is so important in investment, but it can be very frustrating when you haven't performed particularly well and it's very easy to get bored with stocks because they haven't performed.

It sounds very flashy for me to say, I've sold all these things and I've bought something new, but actually, the question you've got to keep asking yourself is, if the business is still doing well fundamentally, why would you want to sell it, even though the market is not rating it very well. I think that's the thing that we keep looking at. A lot of our growth businesses, the market doesn't like growth businesses at the moment. We understand why, but that doesn't mean that we should sell them because actually, they are still growing and we're think they're getting stronger positions and we're being patient because we think in the long-run, share prices follow fundamentals. So, if you think the fundamentals are still on track, I'm not going to sell them and maybe that's not what people want to hear. I do think that's the best way for why this fund is going to generate capital growth both in the past and in the future.

It's about that conviction as well, isn't it, to the long-term. Do you want to expand on that? Where are some of your highest conviction areas? Sectors or geographies that you have for the next couple of years or so?

I think the really important point is if you look at the team that's running the fund, it's not just Steve and myself, the other regional managers as well. The average experience is about 20 years. So, we've been through ups and downs and I think what we're doing, rather than picking out individual themes, is we're still finding good growth businesses. Actually, a lot of them we own. Actually, the portfolio turnaround's been relatively low because we're not panicking out of things. I think in the US, for example, we sold a few of our lower conviction ideas because they hadn't quite worked out, but we've been adding to things that we do like. We bought back into Meta, Facebook because I think what it's done has been pretty impressive in trying to address some of their cost issues. I think it's really good.

So actually, the shape of the portfolio hasn't really changed very much. It's still got a fundamental growth bias, but as I said to you before, we've got a mixture of both high tech, snazzy new names like Moderna, but also, things like Gregg's, which is more prosaic. What they both have in common is we think they're both growth businesses. That's what we continue to keep doing and we're not going to change that because we think that's the thing that's going to generate good returns over the long-term for holders.

Another question here, "Could you define the target market of the managed fund? Would it still fit in a long-term decumulation aim?"

That's plugging into advice. I'm not sure I'm really well-, what we're trying to do is generate capital growth over the medium to long-term. So, we're not trying to run this business on a short-term basis. So, we're not trying to run it for a one year, two years. We're trying to say, can we generate capital growth over the medium-term? I think that's a really important aim for a managed fund investor because income is good, but ultimately, if you're going to use that capital in the future, you will have more capital because income doesn't sort of properly, you've got to do capital after the income has run out. That's why we've always focused on capital rather than income growth because we think that that's the thing that matters over the long-run. When it comes to decumulation, I'm afraid that's-, speak to an adviser, not to me, they'd give you much better advice than I can.

We have another viewer here who's looking for a little bit more info on your [marker 0:40:00] rebalancing strategy.

What we do is, every quarter we have a policy setting meeting where a number of senior people on the fund, including myself and Steven, plus a member of our diversified growth team who are meeting to discuss our asset allocation. So, we're always looking it the equity, bonds, cash split every quarter and sometimes, intra-meeting as well, depending what's happening. I would stress that this is the most important thing because, actually, if you look at our returns over the long-run, our outperformance, I think 85% to 90% of it's come from our stock picking. So actually, our asset allocation doesn't change a huge amount because we don't think it actually adds a huge amount of value from that asset allocation change. We're just trying to check convictions. It's always very good from that bottom-up basis to see where are people's convictions. To give you an example, it's one I'm sure I've used with you before. Amy.

Going into the Great Financial Crisis, our cash levels were quite high. Not because we were predicting a crash, it's because at that point, from a bottom-up basis, people were giving money back saying I can't find any idea [unclear 0:41:22]. We said, fine, give us the money back. What's interesting at the moment, we're seeing the opposite. People are saying, I really believe in this portfolio and I'm finding opportunities, I want to have some more cash. That's why we're above our target weight. So, we're always checking if that makes sense and that's been one of the key debates within the policy setting group is, we're still very positive about equities, does that still make sense? It comes back to this conviction. I've got colleagues that have been very experienced, very good stock pickers and they're excited about the portfolio. I'm feeling very excited about the UK portfolio and that's why we've got about 78% of the portfolio in equities at the moment.

I was wondering how long this one would take to come up. "How has your view on opportunities in China changed or does that fall into the event category?"

I don't think it's put into the event category. I think it's always a discussion about-, there's two things. There're direct holdings and there's indirect exposure to China. I think that's very important. Direct exposure, actually, isn't that big. It's about 4%, 5%, something like that. maybe less than that, actually. Our indirect exposure, when you look at western companies that are selling into China, it's obviously, bigger than that. That's not a bad thing because China is the second biggest economy in the world. It's growing despite challenges at the moment. I think to us, we've never been a big position for us in that respect. So, I think our emerging markets team have always trod a very pragmatic view there. I think you want to be the right side of where the government is trying to encourage investment and so on.

So, we've been more on the domestic exposure and things like that, which I think is obviously, still a very important point for China. So yes, that's the way we're trying to think about it. The trickier one, I guess, is just what does it mean for supply chains over the long-term? I think it's not just China. I think COVID has been a real eye-opener for all our companies in terms of the supply chain, is it too thin? Do you need to [unclear 0:43:42] back, I think. Actually, it's not always the case. A lot of companies I speak to, for example, Mexico is benefitting. If you want to be in the US, you're not just going to go into the US, you're going to go into Mexico. So, they've moved stuff from Asia back into Mexico.

Equally, there's a lot of companies in Asia that ware doing really well and I don't want to sound negative on Asia, I think there's a really long-term exciting growth story in Asia which China is part, but it's not the whole story.

In the last few minutes, we have a final question. "What are your thoughts on capacity within the portfolio?"

Plenty of capacity.

Perfect, I think that is a great way to end. An opportunity. Thank you very much, Iain, for sharing everything. It certainly feels like there is plenty to be optimistic about in growth investing, despite the headlines.

Yes, agree. Thank you.

That's all we've got time for, I'm afraid. Thank you, Iain, for your time and insights and thank you all for watching and for your questions. We've more sessions like this coming up, so do keep an eye for those if you found today useful. That's it, thank you very much.

Annual Past Performance to 30 September Each Year (net %)

	2019	2020	2021	2022	2023
Baillie Gifford Managed Fund	3.6	26.9	16.5	-28.2	6.4
IA Mixed Investment 40-85 per cent Shares Sector Median	4.5	-0.5	16.8	-9.6	5.0

Source: StatPro. Managed Fund Class B Acc. Sterling. Net of Fees.

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

Past performance is not a guide to future returns.

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- Custody of assets, particularly in emerging markets, involves a risk of loss if a custodian becomes insolvent or breaches duties of care.
- The Fund has exposure to foreign currencies and changes in the rates of exchange will cause the value of any investment, and income from it, to fall as well as rise and you may not get back the amount invested.
- The Fund invests in emerging markets where difficulties in trading could arise, resulting in a negative impact on the value of your investment.
- Bonds issued by companies and governments may be adversely affected by changes in interest rates, expectations of inflation and a decline in the creditworthiness of the bond

issuer. The issuers of bonds in which the Fund invests, particularly in emerging markets, may not be able to pay the bond income as promised or could fail to repay the capital amount.

- Derivatives may be used to obtain, increase or reduce exposure to assets and may result in the Fund being leveraged. This may result in greater movements (down or up) in the price of shares in the Fund. It is not our intention that the use of derivatives will significantly alter the overall risk profile of the Fund.
- The Fund’s share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the Fund is priced.
- Where possible, charges are taken from the Fund's revenue. Where there is insufficient revenue, the remainder will be taken from capital. This will reduce the capital value of your investment.

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