

Baillie Gifford Managed Fund Q1 investment update

April 2025

Investment manager Steven Hay and investment specialist Philip Scott give an update on the Managed Fund covering Q1 2025.

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Philip Scott (PS): Welcome to this update on the Baillie Gifford Managed Fund for the first quarter of 2025. My name's Philip Scott, I'm a specialist on the fund and I'm delighted to be joined by one of the fund's lead managers, Steven Hay.

In this update, we will cover the market backdrop, what's been going on in markets and how the fund has performed in that context. We'll look at changes we've been making within the fund and we'll look ahead to the outlook and asset allocation positioning from here.

Steven, getting into the backdrop first of all, safe to say a choppy first quarter of the year driven in large part by geopolitics. What would you point to as the key events that took place in the quarter and how did the fund perform against that backdrop?

Steven Hay (SH): Sure, Phil. I mean, as you say, pretty volatile. A bit [of] uncertainty about tariffs. I could sum it up pretty much about that in the US administration and what exactly is going to happen. So that's what everyone's talking about. No one has clarity on what's going to happen.

We're filming this today on so-called Liberation Day, where we don't really know what's going to happen on tariffs. We'll have to wait and see to some degree. The VIX, which is the market index of fear, has been elevated. So people are just uncertain about things. It's been a tricky environment.

Inflation's been a little bit sticky as well. And growth has been, certainly the US revised down a touch. So it's not been a great quarter for underlying fundamental news.

And you've seen the 40 per cent to 85 per cent share sector has been down over the quarter. The Managed Fund is down just a little bit more than the median, down around 2 per cent over the quarter.

And we know that when the market is uncertain, the Managed Fund, it doesn't always do that well, because the market is pricing the prospects for the growth companies in the future a little bit more harshly. So that's maybe to be expected a little bit.

In terms of the actual portfolio and what's been happening, it's really some of the US names that have underperformed over the quarter. So we've had the likes of Amazon. We've had the Trade Desk, which has been a very strong performer for us, but that had a relatively bad quarter after a very good performance before.

And Datadog, a data observation company – which is helping companies analyse data – that had a poor quarter. And to a degree, there's been a little bit of the market reducing expectations for longer-term growth for these companies. We don't think that's justified. We think the structural case is still very strong. But that's the way the market's working.

On the more positive side, there have been some good performers over the quarter. So BYD, the Chinese EV (electric vehicle) manufacturer, Tesla of China, as they say, its sales actually surpassed Tesla's over the quarter. It had a very good quarter and did well.

We've also had good performance from Babcock, a bit closer to home, the UK defence company. It's a real turnaround story there. That's why we're interested, but I guess helped by a tailwind for defence companies as well. And then Prudential, the insurer, has had really good dividends and earnings growth, and the market's been rewarding that.

So overall, yes, a few negatives over the quarter, but lots of good stories as well. And operationally, generally speaking, very happy with how the portfolio is performing.

PS: Great. Well, before we come back to the portfolio, I do want to press you on the US. It is the question on everyone's lips. Lots of pessimism, fair to say, in the press, in the markets. What's your view on what happens next in the US?

SH: Yeah. Well, the market hates uncertainty. If you just take tariffs away for a second, I think the underlying picture of growth in the US is actually fairly decent. It's around about 2 per cent underlying growth. And inflation is, you know, it's not been coming in quite as fast as people would have liked, but I think it would continue to decline through this year if it wasn't for tariffs.

So, tariffs. We obviously don't know where we're going to end up, and that's the problem. Any announcements that come, we don't know how long those tariffs will be on for. Will it be much more selective in terms of the number of goods they're on, or will it be across wide swathes? We have to really just wait and see.

And we know that Trump is able to control tariffs, doesn't need Congress. That's a reason why he likes them. And we also know philosophically him and his administration want to right the wrongs of the US trading relationships. And so they want to do that.

Plus, it does the banking on it a bit for the fiscal revenue. So there are reasons they want them on. But then again, part of it is maybe just to extract concessions from other countries. So if they start giving concessions, maybe the tariffs come off. And also he'll be concerned about if the market's down too much or the economy's hit too much or inflation goes up, that'll be a negative. So he'll probably reverse course. So lots of uncertainty on it. And I think we'll probably end up in a situation that's not half as bad as the market is fearing.

And just another point on the global economy, we've actually had really positive news from Europe over the quarter. So the size of the fiscal stimulus in Germany, in particular, for defence, it's like 1 per cent of GDP per annum, which for a country that's been growing one, one and a half, is actually a significant boost. So that will really help the overall European growth situation and will definitely be some offset to the negative impact that might be there from tariffs.

PS: So, lots of change going on in the world, and you've kind of scratched the surface in some ways in a global context. In terms of the portfolio then, what changes are you and the team making there?

SH: So as you know, we're longer term investors, so it's not about reacting to geopolitics or whatever else. And perhaps because the market's been so volatile and it's been a difficult trading environment. We've maybe been a little bit even less active than normal. But we have made a few changes to portfolio.

So in terms of reductions, we have The Trade Desk that I mentioned earlier. Trade Desk had done very well. We actually reduced that position in January before the sell-off. So we had a decent-sized reduction to The Trade Desk and just didn't feel that the market valuation was reflective of the opportunity at that point.

NVIDIA we've also trimmed as well, because the range of outcomes that we see for NVIDIA is just so broad now that we just felt that it wasn't as worthy of such a big position in the portfolio.

On the other side of things, we have been adding where there's been opportunities. So we've added to Hypoport, which is a German mortgage originator. And that's one that should be helped by a more positive European growth picture. And we've also added to Cloudflare, which is a cloud security platform, and again, opportunity to add in weakness.

And then a new buy altogether. So we know that lithium prices have been really quite weak recently, and that's been an opportunity to buy SQM, which is a Chilean lithium miner. And we see the prospect that the demand for lithium will be very strong for many decades to come. So it was a good chance to buy into that lithium miner.

So yeah, maybe not as active as normal, but not sitting in our hands and finding opportunities still.

PS: Yeah, and encouraging to hear, despite the noise, there are opportunities out there if you're willing to hunt for them. Just as we draw towards a close, Steven, asset allocation,

amid such an uncertain environment, how do you think about that and what's the team been doing in the asset allocation world?

SH: Yeah, it's probably discussing it a little bit more than we normally do. So we usually meet quarterly, we have met extra times just to make sure we're on top of what's happening. And I think it's fair to say that although the equity managers remain really optimistic on the underlying holdings, that overall level of uncertainty, and what might happen has meant we think it's not a time to be overweight equities relative to our strategic weight.

So having been overweight, we've brought that back down to the strategic weight. So we're 75 per cent in equities, 20 per cent in bonds, and we've upped our cash holding to 5 per cent. And that cash is really there for if the market sells off, and we think it's unwarranted, that'll be a chance for us to get in and buy and add to equities or potentially bonds in that situation.

So yeah, a little bit more uncertainty. So just being a little bit cautious. But overall, we think growth companies look fairly cheap at the moment. And so it actually has a lot of market fear. The outlook's actually much, much better than we think the market thinks.

PS: OK, well, that's a very positive message, I think, to leave us on. But actually, a key takeaway that noise, uncertainty, we're cognisant, but actually, there's lots to be enthusiastic about from here. So we'll leave it there.

Thank you very much, Steven. And thanks as well to you for tuning into this video.

Baillie Gifford Managed Fund

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

	2021	2022	2023	2024	2025
Baillie Gifford Managed Fund B Acc	46.4	-8.2	-8.5	10.2	1.9
IA Mixed Investment 40%-85%	26.3	5.4	-4.3	10.2	3.6

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

Past performance is not a guide to future returns.

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

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