

Schiehallion Manager Insights

April 2024

Investment manager Peter Singlehurst reflects on the performance of the Schiehallion Fund over the last year and discusses the outlook from here.

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

Peter Singlehurst: Hello, I'm Peter Singlehurst, manager of the Schiehallion Fund. 2023 was another challenging year for share price return, with a widening discount to net asset value. Over the year, many of the fund's portfolio companies posted strong operational performance, continuing to reposition themselves towards self-funded profitability. This drove a stabilization in the underlying net asset value return. Private markets remained subdued through the year, albeit with less volatility than 2022. The IPO window remained largely closed. During the year, we saw the C-share class merge with the ordinary shares. We also announced a share buyback program.

Performance

Over the year, net asset value return was negative 0.9 per cent for the ordinary shares. This reflected weak performance in the first half, followed by a recovery over the second half. Performance was driven by both public and private market holdings. The leading public contributors were Affirm, the American buy-now-pay-later provider, Wise, the London-listed foreign exchange platform, and Oscar Health, the American health insurer. Share prices rose by 408 per cent, 64 per cent, and 272 per cent respectively. In December 2023, we took the opportunity to trim the Affirm position from 7.5 per cent of the fund to 5 per cent, while public direct consumer holdings Warby Parker and Allbirds struggled in 2023. Leading private contributors included SpaceX and Bending Spoons. SpaceX, the Rocket Company and Starlink provider, completed a substantial tender offer, valuing the company at \$180bn, significantly higher than the \$77bn round at which we topped up our holding in 2021. Bending Spoons, the Italian consumer application developer, significantly exceeded their forecasts following the successful integration of

Evernote with the carrying value of our holding increasing 150 per cent over the course of the year.

Portfolio update

Overall, operational performance was particularly strong in the top 20 holdings. These companies generated on average 40 per cent revenue growth and over 40 per cent gross margins. The five largest holdings, SpaceX, Wise, Affirm, ByteDance, and Bending Spoons, represent a portfolio that is unconstrained by both geography and sector. Each is cash generative, with four of the top five being profitable. Average top line growth was 48 per cent, with average gross margins of 57 per cent. The biggest operational disappointment was around the freight brokerage company, Convoy. Convoy ceased operations in Q4 2023 with our investment being written off. Whilst every investment runs the risk of this outcome, in these situations we always aim and normally manage to recoup at least some of our initial invested capital. Looking ahead, further refinancing risks for our portfolio companies look manageable. Over a quarter of the portfolio by capital weighting comprises of profitable companies, with just 10 per cent comprising companies facing less than 12 months of cash runway remaining. The mean average cash runway among the loss-making holdings is over five years.

Looking forward

In November 2023, following a period of public market recovery and accounting for a sustained discount to net asset value, we announced a buyback program. We've so far bought back 2.6 million shares at highly attractive discounts to net asset value. We continue to see this as an attractive place to deploy capital, although we weigh this against the opportunity cost of providing further support to existing holdings and taking new positions during a period of depressed private company valuations. We maintain our conviction that Schiehallion's ability to access the best private companies globally remains differentiated and relevant. And we continue to believe that our analytical framework for selecting the most attractive investments from this pool will give us the opportunity to generate attractive long-term returns for our shareholders. We remain deeply grateful for your continued support.

Annual Past Performance for the Schiehallion Fund* to 31 March Each Year (Net %)

	2020	2021	2022	2023	2024
Ordinary shares	11.4	41.2	2.2	-63.0	19.1
Ordinary shares NAV	2.3	47.0	0.3	-25.0	6.9

Source: Morningstar, share price, total return, US dollar.

*The Schiehallion Fund was launched on 27 March 2019.

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Important information and risk factors

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

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The specific risks associated with the Company include:

Investments that are subject to low trading volume, lack of a market maker, or regulatory restrictions may not be possible to sell at a particular time or at an acceptable price. Large positions held in securities of particular issues may decrease the liquidity of any investments.

Risk is increased by holding fewer investments than a typical fund and the effect of this, together with a long-term approach to investment, could result in large movements in the share price.

Private Company assets may be more difficult to buy or sell, so changes in their prices may be greater. There is no guarantee that private companies will become publicly traded companies in the future.

The price of the Company's shares may be highly volatile and at a discount to the Company's net asset value per Share. Shareholdings in the Company are likely to be illiquid.

The Company may issue new shares when the price is at a premium which will reduce the share price. Shares bought at a premium can therefore quickly lose value.

For a Key Information Document for the Schiehallion Fund, please visit our website at www.bailliegifford.com

All data is source Baillie Gifford & Co unless otherwise stated.

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