

UK Core Q3 investment update

October 2024

Investment manager Iain McCombie and investment specialist Chloe Darling-Stewart give an update on the UK Core Strategy covering Q3 2024.

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Chloe Darling-Stewart (CD): Hello and welcome to this Baillie Gifford UK Equity Core Strategy update. As a brief reminder, the Strategy is looking to invest in the best growth businesses in the UK for the very long term. I'm Chloe Darling-Stewart. I'm an Investment Specialist with the team and I'm delighted to be joined today by Iain McCombie, who is head of the UK Team and lead portfolio manager for the UK Core Strategy.

Over the next 10 minutes or so, Iain and I will discuss what's been going on in the UK market and some of the stock stories that are driving recent performance and hopefully give you a good sense of our optimism for the strategy to deliver long-term returns.

So, Iain, looking at the big picture, the UK economy has shown some promising signs of recovery over the summer. And against that backdrop, performance has picked up, delivering a positive absolute return and outperforming the FTSE All-Share. Do you think we're starting to see some green shoots of recovery for the UK market?

Iain McCombie (IM): Hi Chloe. Well, look, it's a really interesting question. And I'd love to say "for sure, yes." But we're long-term. We're trying not to get too excited about short-term trends. But I think you have put your finger on something, that there are some initial signs that maybe things, after a tough period, are looking a little bit better for us.

I think, as you say, the economy is doing a little bit better. We're seeing the companies now reacting to good operational news. I think that share prices are now following fundamentals. We talk about that a lot. And I think the other thing, obviously, we had the election and a landslide for labour. And hopefully, people think that that will mean there's certainty of what's going to happen over the next few years.

So, look, it's too early to tell, but certainly some encouraging signs.

CD: That's really good to hear. Are you finding in your interactions with companies that they're also quite positive and quite upbeat?

IM: Yeah, I mean, it's hard to generalise, but if you're asking me that, I would say on balance, yes, I think companies are sounding a more positive kind of tone when we're speaking to them. But again, the context is it's been a pretty tough last few years, with Covid, the supply chain issues, higher inflation and interest rates and so on. And the economy has not been strong, both UK and elsewhere. So, I think companies have been managing through that.

And I think we're perhaps starting to see people look at a more normalized kind of opportunity of growth for the future. Now, I should say there's always something to worry about. So, we're not saying everything's all set. There are always still concerns there. But definitely, you're right. I think there's been a bit more of an upbeat tone from people.

CD: Could you give us some examples perhaps from the portfolio of where there is that kind of more positive message?

IM: Yes. A couple of stocks that performed really well in the quarter were Marks & Spencer (M&S), and Autotrader.

Now, we've talked about M&S before. It's a kind of recovery story. But again, the shares have, I think, hit almost a four-year high in the quarter, because really that turnaround story continues to unfold. They're still seeing good trading.

And I think that's a really important point, that once a business frankly that's lost its way, arguably for a couple of decades, starts to get its mojo back, if you want to put it like that, it's going to happen. It's going to hopefully take quite a period of time for other people accept the fact that maybe it is different this time, and also for that momentum to play out. And we're seeing that. Good trading update, but we think there's a lot more to do. We've spoken to management, they're very candid about that point that we're still in the foothills of that recovery, which is exciting.

Auto Trader, a much more established business, **it's** looking for new opportunities to grow, reporting really strong numbers, the market was really happy with that. And that's a good example of where the share prices are following the fundamentals.

CD: It's all really encouraging. I'm sure not all holdings have been as smooth sailing as that though. I'm thinking, for example, of the annuity provider Just Group, which is amongst the top contributors to performance this quarter. I know that's not always been the case and might have been a bit of a bumpy ride. Could you maybe talk us through that and your experiences?

IM: Yeah, well Claire, I think this video is only 10 minutes, so really I can't really go into all the ups and downs of that. But I think you're right. It's a really good example of a stock that we've owned for

a number of years. It's tried our patience. But that's what long-term investing is about. Your patience will be tried. But what you've got to try and do is look at the fundamentals. And is the opportunity to grow there still the case? And we still think it has been before and now.

It's selling individual annuities, also selling annuities to companies that are looking to do a buyout of their pension scheme. And what we've seen with interest rates going up in recent years is that the demand for that has really gone through the roof. The phone's almost ringing off the hook in terms of people wanting to get Just Group to quote for a new business, which is great.

But the other angle is obviously the management team. Can they actually catalyse on the opportunity. And we have been very impressed with the management team in recent years, just quietly saying, this is what we're going to do and actually deliver on that.

And I suppose what's been frustrating up until now is that the market's been a bit sort of looking at other factors rather than what they're doing. But now they've cottoned on to the fact that the fundamentals of this business are really good and they're delivering ahead of expectations. So that's been a good example of one where we've been patient, but hopefully that patience has been rewarded now.

CD: **That's** really good to hear and really demonstrates that patience factor when investing for the long term. So, I guess to wrap this up, Ian, this has all been really positive, which is terrific, of course. But tell me, there must be something that you're worrying about. What's keeping you up at night?

IM: Look, two Scots having a conversation. We're going to finish on some downside, aren't we? That's what we're like, as you know. But I'll try and answer that in two ways.

Individual stocks, we did have one individual disappointment. That was Burberry, the clothing retailer. Now, what's going on there is quite interesting. The overall market for luxury clothing has been difficult. It's not just a Burberry issue, it's the whole sector is struggling a bit at the moment, as consumers have been a bit more cautious on paying ridiculous sums of money, as some people would say, for clothes. But they've also got their individual kind of challenges at Burberry.

Now, there are two within that. One is they've been trying to get their plumbing in order. And they spend a lot of time trying to figure that out and do that. Sounds simple, but it's quite hard to do. And I think they've been making progress there. But the other problem, which I think has certainly not worked for them so far, is trying to move the brand upmarket. And it's just been perhaps the right strategy at the wrong time, and it's not really working. And sales have been very disappointing, and the CEO has left. Now, a new one has been appointed.

One of my colleagues went down to meet them just to see what they're doing. They're pretty frank about the challenges of trying to revitalise the brand, you know, the magic, as he called it, of getting the brand back. Not simple to do.

The other stuff, the internal plumbing, I think there's a lot still to do, but they're quite happy with the progress they're making there. So, it's been a disappointing stock for us, and it's one perhaps, again, where our patience is being tried. We're thinking about it now, and we'll probably update you in the next period of time what we're going to do with that.

So, that's one thing I worry about. The second thing, a broader thing for the portfolio, is really M&A activity. Now, that might sound a bit counterintuitive in the sense of 'isn't M&A activity good for the portfolio, stocks being bid for, the prices go up?' And we had something, for example, like Hargreaves Lansdowne was bid for in the quarter and the shares have done reasonably well over the short-term.

But where we worry about it is where companies are potentially being taken out or being bid for when we still think they've got years of growth and that bid doesn't reflect that long-term growth opportunity.

And we actually had a really interesting example of that in the quarter where an Australian company bid for Rightmove, the property website. Now, the good news is that the board held strong and said basically, we don't think the price is reflecting the long-term growth opportunity for the business. And basically, the Australian company had to withdraw because the board just refused to agree to any of the four bid approaches that they had.

And we're really pleased about that because although, yes, the share price went up on the initial news. We still don't think it was reflecting the opportunity of Rightmove. It was just reflecting the fact that Rightmove was the cheapest property website in Europe, and somebody was trying to capitalise on that. But that didn't happen there. So, I was actually really pleased about that.

CD: I suppose overall though it's perhaps a good sign that the U.K. market is becoming quite attractive with all this activity?

IM: You're right. Absolutely.

CD: Well, I think that's maybe a fantastic place to leave things. I hope that's given you a good sense of what's been going on in the strategy over the quarter, and our optimism for the outlook for the strategy from here. Thank you very much for tuning in and please do get in touch if you have any questions.

UK Core

Annual past performance to 30 September each year (net%)

	2020	2021	2022	2023	2024
UK Equity Core Composite	-6.2	33.9	-34.1	24.3	28.4
FTSE All Share Index	-12.5	33.4	-20.5	24.5	24.6

Annualised returns to 30 September 2024 (net%)

	1 year	5 years	10 years
UK Equity Core Composite	28.4	5.7	4.1
FTSE All Share Index	24.6	7.6	4.3

Source: Revolution, FTSE. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

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