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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 trusts. Today, we're talking to Spencer Adair, manager of the Baillie Gifford MONKS Investment Trust and we're exploring a three-dimensional approach to growth. More on that to come. My name is Natalie Breen of Citywire and I'll be talking to Spencer for about 25 minutes about how he runs the trust. Spencer, welcome and thank you for joining me.

Hello, Natalie. Thanks for having me.

MONKS is approaching its centenary and it's probably fair to say that it's been through an incredible amount of change during the decades. What have you learnt from the history of the trust overall and how can you apply this to the current management?

We were founded in 1929 and soon after foundation, we had the depression and then we had the Great Wall Street Crash and the bank that issued MONKS went bankrupt. So quite a rocky start. Baillie Gifford took over managing the trust in 1931 and since then, we've been through world war, the cold war, lots of ups and downs. Recessions, depressions. Emerging of China, emerging of Japan. Really great changes in society, great changes in industry and great changes in finance. We'll be 95, not out, next year. So, the countdown is beginning to the raising of the glass in 1929*(sic)*. Some lessons from history. We have retained a long-term outlook and approach.

So, despite all that volatility and changes, we've always been long-term. We've always prioritised capital growth over income and what's constant is that we've had to be open minded about where growth is going to come from in the future. So, we pick well-funded companies, from anywhere around the world, with sound structural growth prospects and we let the companies do the heavy lifting in terms of wealth creation. If I look back in the portfolio, in the 1970s our largest holdings would have been the oil majors, Shell and BP. In the 1990s it would have been GlaxoSmithKline and Vodafone. So, pharmaceuticals and telecoms.

Then today, our larger holdings would be Amazon and Microsoft in technology, but also, CRH and Martin Marietta in building materials. So, the nature of growth changes, but the focus looking for growth does not change.

I think we'll dig into some of those changes and how you're capitalising on the opportunities that it's presenting in a minute, but let's get a bit of a snapshot of where we are that moment. The last time you joined us for this webinar, you were quite self-reflective and even quite self-critical of the year that you had through 2022. Could you give us a little bit of a snapshot or some oversight as to you're feeling about the teams and your own performance during this year?

Look, I always give our shareholders honest, straight-talking assessment of performance. So yes, having seen NAV fall from something like 23% over the calendar year 2022, I certainly wasn't going to pretend that we did nothing wrong. So, we made some mistakes. We admitted them, including coming here and we adjusted the portfolio. The worst thing we could have done was buried our heads. Now, we report net asset value of the trust every day and as of yesterday, our net assets were £11.29 and that equates just over 7% growth year-to-date, since the beginning of 2023. Note, I'm talking here in calendar years, not financial years, but that's where we are.

All of that 7% growth has occurred in the last month or so. So, we've had quite a short sharp rebound in growth company performance as the market's beginning to think that inflation and long-term rates may have peaked. So, the first half of calendar year 2023 continued to be difficult, but the second half so far, has been far better. That 7% growth, if that continues for the rest of the year, will make a calmer year and 7% is much closer to the high single-digit low-double digit rates of net asset growth that we anticipate over the long-run. We're still lagging behind the global index by a handful of percentage points, but I'm feeling much, much better on the portfolio companies. How they're performing operationally and we're seeing improving momentum externally.

We've just finished an exercise on the top 20 holdings, all or biggest holdings and we looked at the potential upsides in the coming five years. In contrast to a year ago, there were very few problems, no problems in fact, in the top 20. So, I'm happy to back them all. Some of them with more capital. These top 20 are a sample of the wider trust, but of the top 20 we looked at, their revenue and earnings are forecast to grow almost three times faster than the index. So over 15% forecast earnings growth over the long-run. The index growing at about 5%. That's as wide a margin over the benchmark as I can remember at any point in my investment career.

So just under three times the growth for a modest valuation premium is exactly how I want the trust to be positioned. Now, if I look at the holdings, about 70% of the holdings are trading below their long-term ten-year average valuations. So that's a really good-, we've got the trust into a really good shape.

So, it's encouraging that you're coming back to a relative state of calm. We haven't had this for the past few years really. So, your team's well setup to capitalise on this.

Yes. The team are out travelling a lot. Meeting companies and as you know, we put each of our companies through this framework. Three different types of companies and three dimensions of growth. So, we're out looking for-, roughly a third of the trust and third of the names we're looking for, comes from the get rich slowly stalwarts. The compounders. These are established durable businesses that are self-funding, that have got deep moats and accrue their profits 10% a year over the long-run. Companies you'd be happy to own in almost all environments. Most of the growth comes from topline expansion, but a bit from margins grinding higher. Some buybacks.

We can get this wrong is society turns against a product. So just under 20 years ago, when we started investing this way, we had a couple of tobacco companies. We don't have those anymore because society's pushed against tobacco. We'd also get these wrong if management hubris gets too high and they do a large deal or something. So that part of long-term [marker 0:10:00] compounding is really under appreciated. Current examples, holdings would include Microsoft in software. Estee Lauder in makeup. Pernot in spirits and we've met all three of those in the last few weeks.

The second dimension would be these rapidly growing upstarts. Growing 20% a year, often innovating, creating a new market. The founders still in place, making ambitious moves to realise their vision. They can require external capital to grow. So, we tend to keep quite a lot of dry powder in case they need that. Operational excellence and managing growth or headaches and we look for skills in those areas. These can go wrong by just not executing well. So, growth here at a real combination of top line growth, but also, very rapid material margin improvement as they scale. Offset to an extent, by issuing some more shares. It's the power of disruption and it's the value of the novel that are really underappreciated.

So recent meetings or recent companies that we've been talking to there, includes Spotify in music streaming, Door Dash in food delivery and Schibsted in Scandinavian classifieds. Then finally, a third of the portfolio is in the more cyclical businesses. These are more mature, but brilliant at what they do. They're run by really skilled capital allocators. They're capable of 15% earnings growth over the long-term, but that's not delivered as smoothly as the first two categories. We expect periods when profit will fall, particular if the economy is difficult. What we're looking for here, is a management team who keep investing during difficult periods. When the cycle eventually turns, these are the terms that setup the opportunity for a really superior, super normal growth compared to their peers.

So, it's often one step back, but setting up for three steps forward and it's the value creation of being countercyclical there is really underappreciated by the market. So recent examples include Ryan Air in cheap flights. SiteOne in landscape gardening supplies and TSMC in chip manufacturing. So that's what we've been up to. We've been our looking to the world through this 3D lens.

We've touched on the fact that it really has been a turbulent time in terms of performance, at a market level, as well as the investment trust. Could you give us an overview of where we are at the moment and how you see MONKS emerging from this period. How are those companies that you've just talked about, how are they going to help you kick on for the next five years?

Look, I think turbulent is quite a polite phrase for it. I think we delivered one of our best years going into the pandemic and then one of our worst years ever coming out of it. So, performance has been much more volatile than I wanted and I know we've tried the patience of our shareholders. I'm taking quite a lot of comfort from a calmer period, good operational performance coming through. We've got the portfolio balance exactly a third in each of the three buckets, which is what I wanted to do and we've been working hard to constantly upgrade the portfolio. I'm excited about the aggregate trust level statistics. So, if I try to think about the whole portfolio, we have got superior pricing power in our companies, as evidenced by superior gross margins.

We're much less indebted than our peers. The average listed company has over two times more debt than an average MONKS company and that's been a hidden advantage, which is really becoming very real as the cost of debt rises. 97% of the portfolio is self-funding. EPS or free cashflow positive on a forward-looking basis. There are three companies which are not. They're under extreme extra scrutiny. I suspect one of them will be sold before the year-end. Going into the pandemic, about 90% of the portfolio was fully funded. So big improvement there. Then as I noted earlier, our companies are just growing structurally much faster. So, two to three times the rate of their peers. The greatest rate for many years.

So, the companies are naturally resilient. They're pretty adaptable. They're lowly of debt and they're growing faster structurally. So why has the share price been cut, range point between nine and ten points a share? I think what's been holding the NAV flat is that we've had rising bond yields and that's depressed the net present value of future earning streams. You can see that effect in most long-term assets, from property to long-term government bonds. When I think about what's been adding or subtracting from performance most recently shorter-term, we've had really strong contributions from the likes of some of our cyclical holdings. CRH and Martin Marietta. CRH redomiciled in the US and we've got a kicker of both strong growth and a rerating. It's trading at a big discount to its American peers.

We've had a good kicker from the likes of Ryan Air in low-cost flights continuing to sign up and transport more and more passengers around Europe and they may start putting up their fares, which would be another unlock. We've had strength from some of our disruptive companies. So, growth is really powering through in the likes of Li Auto, who haven't missed an operational beat in China. That's a hybrid and electric car maker in China. Operationally fantastic. Shopify have announced plans to have less capital-intensive growth, big boost to share price. Probably the single biggest thing that's hurt has been the holding in the Schiehallion fund, which is how we get some of our unlisted exposure.

I've got two reasons to not beat ourselves up too much about that. First, the valuation of our listed companies have been reset a lot lower. Schiehallion recently did a funding round on one of its companies and that company was valued at eight or nine-times net profit. So, this is no longer multiples of revenue or EBITDA, but actual net profit. So, I don't think we can find that kind of growth cheaper anywhere else in the world in the private sphere. Secondly, Schiehallion's NAV has widened very dramatically in the last 12 months. Up to 60% discount at one point. The board of that trust, that company has taken action. They announced a buyback recently.

We really welcome that and we're pleased that the discount has been narrowed quite quickly. So that's what's been going on. Finally, for me, one aspect of Baillie Gifford's history is that we have been through periods of high inflation investing before and we can look at how did our largest or longest standing client fare during periods of inflation peaking in the past. Frankly, inflation peaking sets up really strong performance over the next decade. So, after inflation peaked in 1952, the next ten years delivered 17% per annum for a decade. In 1975 it was 15% for a decade. 1980 it was 21% for a decade. So, you see this pattern here. If we're close to peak inflation, that tends to herald a strong run for growth equities.

So elevated inflation does not kill off growth. I think it does cause short-term pain, but that pain's really a coiling of the spring and that's really helpful as the spring then springs back. So, if history's any guide, we should be repaid for our loyalty during this flattish difficult period.

I feel like this is certainly the first time in one of these sessions, that we've started to talk about that spring releasing, which is quite an interesting time. On a personal level, it must be quite an interesting time for you as an investor, to start to feel that release.

Yes. For a while, we've had the companies performing strong operationally, but we've had lots of sentiment and lots of valuation compression hiding that progress. Then it's almost in the last few months, we've had growth-, as expectations of inflation peaking or be close to the peak of wherever we're going to get to and interest rates and long bond yields. We're now seeing that mood changing quite quickly. Nothing's really changed at a company level, but just the market's decided to value them differently, which to our mind's, closer to where they should be valued. We even had a bid from one of our companies, from private equity this week or last week. So, these are the kinds of signals which are just suggesting to me that-, you never want to call the top of these things, but if inflation has peaked, it's feels like something's been released in the last few weeks.

It looks like underneath the headline numbers, potentially, you've managed to get the portfolio in really robust health. You've talked about allocating your companies into the three buckets, the three-pronged approach to growth. What are some of the other structural changes that you and the board have been up to recently?

So just for clarity, I'm the manager of MONKS and I report to the board and the board represent you, the shareholders. Everyone on the board is independent. [marker 0:20:00] They've got a great range of experience from fund management, private company investing. Real world business and academia. So, they've been challenging me on the quality and health of the portfolio. So, they've been challenging us to continue to improve the portfolio. So, one indicator is pre-pandemic, the return on equity in the portfolio was 14%. Today, it's 19%. So, although we haven't been [unclear 0:20:31] in share price terms yet, we've been constantly upgrading and they've been helping us drive that.

Secondly, as the discount to NAV has appeared and widened, we've been buying back a lot of shares. I think we've spent £300 million, approximately, on buybacks since January 2022. That's about 12% of the trust. We are very happy to buyback shares. That has added approximately $30 million of value by buying back those shares. We issue shares at a premium, we buyback shares at a discount and we're very happy for that to continue. Then thirdly, we've locked in very, very low-cost debt. 1.7%, 1.8% debt locked out for the very long-term. 30-plus years. We are working in other ways that we can lower the cost of the remaining debt.

So those are the big things they've been pushing on. Challenging the portfolio, improving the quality. Buying back shares at a discount aggressively and they need to do so. Also, locking in low-cost debt as a structural advantage for both this and future generations of savers.

Let's turn to look at the market at a wider level. Your approach could be described as being out of step with the market. Why do you think that is and why do you think the market has so many blind spots at the moment?

The market's not daft. The market's focusing on what's straight ahead of it because it's pretty dramatic. So, it's thinking about the tragedy of war, which is on our screens. It's thinking about the severe cost of living crisis. How are people going to have certain demand or how can people pay for certain products. There're upcoming elections in the US and UK, which will get noisier as the year goes on. In the meantime, investors are getting 5% from sitting on cash. So, you get rewarded for the first time in a long time. You actually get rewarded from sitting on cash.

So, I understand all of those things. They're rational and we've been in the background, calmly, quietly reappraising, upgrading, and getting really excited about areas of growth we don't think the market fully sees yet. So, there's five of these, I'll be quick. The first is that a lot of technology companies have built up really significant user scale, but haven't really been focused on making a lot of money. The first one that started this was Meta, the old Facebook business. It slowed down how much it was going to waste, sorry, invest in the Metaverse and that's led to roughly, a tripling of the share price in the last 12 months.

So, despite that tripling, Meta remains on about 16 times ore earnings pre-growth spending. We're seeing that kind of same sober demonstration of profitability from Spotify, from Amazon, from Shopify, [unclear 0:23:41], Door Dash, Lemonade. There's a lot of these companies that are just saying, I've built up user scale, now I'm going to turn on profits. The market is slow to react to that. So perfect. The second big thing that we're excited about is this drive to renew, to repair, to replace infrastructure is getting stronger and stronger. Some of this is just replacing the old buildings and infrastructure that was built during the boom of the 1950s, 1960s, 1970s. So, they're getting old, need to get replaced.

Some of it's about fulfilling the need for more affordable housing. Some of it's driven by having the need to electrify transport and upgrade the grid for more renewables. Some of it's also the desire, geopolitical desire to have key technologies manufactured onshore. Particularly onshore US and Europe. We want to be a bit reliant on China for key medical semiconductor technologies. Then finally, a lot of the bottlenecks in growth in technology are actually increasingly physical. So, it's not software anymore that's the limit, it's how many servers do you have and AI and cloud computing need a lot of physical datacentres.

So, we're seeing this really large wave of demand coming through, with multiple drivers and it's amplified by significant stimulus packages. The US alone, I think the packages account for just over $2 trillion. Put that into context. The Marshall plan to rebuild Europe after World War II was about $200 billion in today's dollars. So, ten Marshall plans of stimulus coming through to improve-, bottlenecks and money are not the-, money and desire are not the bottlenecks. It's trained people. It's permitted planning permission land and it's raw materials. We've got a lot of holdings-, we've identified those bottlenecks. We've got a lot of holdings that help solve those. So, it could be CRH in aggregates or cement.

It could be Nexans in high voltage electric cables. Advanced Drainage in storm drains to protect us from extreme weather. A relatively new holding, Comfort Systems in air conditioning and electrical engineers. Persimmon in housebuilding. So that repair, renew, replace is big and really material. Third thing that people think are missing is that companies with strong pricing power, keep putting up prices, even if inflation has peaked. Moody's, I think credit rating costs between 50 and 100,000. Because rates are higher, a firm can save millions of pounds in lower interest rate costs by having a Moody's rating. We met the senior management team of Martin Marietta, a US aggregates business last month.

They have not cut aggregates pricing since the 1970s. They are now putting prices up two to three times faster than normal. So, companies are continuing to do that. Fourth, I think the other thing people are missing, is that a lot of companies have got capital advantages and are able to deploy it towards the bottom of whatever the cycle is. So, Process and Schiehallion in growth investing or Royalty Pharma in drug royalties are filthy cheap in terms of their ratings. So, Process, Schiehallion, big discount to net asset values, both buying back shares. Royalty Pharma, single digit PE for a dominant industry leader deploying 10 billion-plus of capital.

Finally, for me, the fifth and final one is, a lot of long-term grants who have got strong heritage, strong pricing power, there are near-term fears around these and some of these long-term brands are trading at multiyear lows, ten-year lows in terms of their valuations. I don't think anything has fundamentally changed. So, we've got Pernot in spirits. We've got Yeti in outdoor goods. Shiseido in makeup. LVMH and Richemont in luxury goods. These are all trading at very low multiples of sales and profits compared to history. So, what I'm excited by? Five areas. Tech profit turn on. Renew, repair, replace. Capital advantage companies. Long-term brands and pricing power. These are the big blind spots the market's missing.

Really interesting, Spencer and great to see how you're interpreting the market. I'm going to turn very quickly to a question from the audience because it relates to this. Thank you to everybody

that's submitting questions. Please do keep them coming in because shortly, I'll be turning to the audience question segment of this session. So please keep them coming. One caught my eye which says, "Is your job essentially to try to see the future?" I guess, from your answer just there, it strikes me that it's a little bit about seeing the future, but it's also about interpreting the signals that you're being presented with at the moment, and perhaps, interpreting them in a slightly different way.

I'm not a futurologist. They sit and they dream up what the future's going to be like. What we're trying to do is see where are there areas of indirect appreciated growth. Where are we seeing structural growth appearing that is not priced in to share prices? So, it's a combination of both can you identify the growth, but also, can you work out what the market might be missing? So, it's not quite the future, it's also trying to-, it would be easy to break the future, but you may not make any money if it's fully priced in. That's the additional bit of my job.

We've touched on this a little bit, but perhaps it would be good to [marker 0:30:00] get it in clear terms. Obviously, we've talked a lot about there being change and opportunities, but what are some of the trends that you're seeing and really trying to capitalise on? You touched on that in your five areas, but seeing as you're looking for such a wide remit, you're looking globally, you're looking at everything, how do you pare that back to some interesting themes and trends?

I think most of the trends that we're picking up are, you're trying to find things which are durable. So, we're always trying to dismiss the-, or work out behind whatever hot trend is, what's the real bottleneck? What's the real thing that's causing a shortage? If you can identify where the shortage is going to be in an area of change, then that's where you make the most money. This is a theory so far, but I think the last 20 years of growth investing have been predominantly companies where everyone's got very soft hands. So, it's media companies, it's coders, it's biotech firms. Increasingly we're seeing growth bottlenecks in companies where people need hard hands. They're out building things, they're constructing things.

I think that nature of growth is changing and we are totally openminded to it. Growth investing is not just about technology investing. That's important, will always be there, but it's also about identifying where the big bottlenecks are. During the 1970s when MONKS' larger holdings were Shell and BP, that's because that's where the bottleneck was. It was we're not going to be able to have the energy we need. In the 1990s when it was Glaxo and Vodafone, it was the mobile computing beginning and that was the real bottleneck they were trying to exploit there. So, growth investing involves and continues and I think it's becoming more physical and more construction real-world driven today, than it was ten years ago, but certainly, 20 years ago.

Spencer, I think we've got one more question from me and then I'll start to turn to the audience questions. I can see from some of the questions coming in, that we might have some newer investors into the trust. So perhaps you could talk us through a little bit about how investors could hold MONKS within their wider investment portfolios. How do you see that sitting in to the wider scheme?

We exist to generate capital growth. We are a portfolio that's well diversified, just under 120 different companies split equally across those three growth areas that I talked about. We've got modest exposure to unlisted companies. A majority of this trust is large listed equities. We will issue shares if we're trading at a premium and we'll buyback shares if we're trading at a discount. So, we will try to keep the share price and NAV as close as possible. You can't guarantee that, but we try our best. So, we try to be countercyclical. We are always, small c, conservative. So, we've got a pretty modest on unlisted and on gearing. My target gearing is 10%. Whenever things were going swimmingly well and performance was through the roof, we let gearing drop to 1%.

So, whenever things were going so well, we took the foot off the accelerator. Now it's taken a couple of years of difficult markets, we've not got gearing back up to around 8%. So, if that's an indicator of how enthusiastic we are, we're getting right back up there. We will not track a global index. We'll be different from the index where active share is high. So, in any short-term period, we're going to be different from the index. That's okay, we just use the index as a broad indicator of global returns. We like being differentiated and I think we're more differentiated now in our views, than we have been for some time. This is how we invest. So, I hope that helps a bit. Use us for capital growth. We are already quite diversified and we spread the growth across three different flavours or buckets that I mentioned.

That actually leads us to segue quite nicely onto the start of the audience questions. One we've got here is the fact that we haven't really talked much about the unlisted holdings. So perhaps you could talk us through your allocation to private companies in the portfolio at large.

We have 10% permission from the board-, we have permission from the board to go to 10% in unlisted holdings. Currently, we're about 4%. We've been slower than other trusts to use up our capacity. Partly because we're more conservative and partly because we've been waiting for an opportunity. The biggest holding in unlisted is Schiehallion, which is another fund. It's trading at a large discount to net assets. Perfect. So that's great. That's just over half of our unlisted exposure comes from Schiehallion. On top of that, some of our larger unlisted holdings would be ByteDance, which is the owner of TikTok. Space X, which is Elon Musk's rocket company and satellite company. Epic Games, who run the Fortnight franchise and Stripe, who do payments for large ecommerce businesses.

All of those are large companies. Many of them could be listed if they wanted to be. They choose to remain private. So, some of these valuations of these companies are well over $100 billion. These are not small incremental businesses. These are large serious enterprises that simply have not listed yet. So, I would anticipate one or two listing in the next 18 months, but even if they don't, they are large, self-funding and continue to perform operationally well. We've got a few smaller holdings, but they are less than ten or 20 basis points of the trust. So that's the majority of our unlisted exposure. Given where we are in the cycle and fear towards unlisted, I am open to business, I'm looking for other ideas. Nothing is immediate, we've no immediate plans, but we'd be looking to allocate money countercyclically to an area which has been out of favour.

Let's turn to look at how you incorporate ESG into your holdings. That's not something we've really touched on. Could you give us a little bit of insight as to your approach to ESG and ESG analysis of your companies?

So, whenever I take a holding for MONKS, I'm thinking-, my base case is, I'm going to hold this share for ten years. Whenever you have that time horizon, you're naturally drawn to how's this company governed, what's the structure like? Does it do good for society? What's the environmental impact? ESG, because of our long-term time horizon is embedded. On top of that, our process includes specific ESG questions for every company that we buy. We have a specialist ESG analyst in our team, helps us with lot of different aspects of work. So ESG is so integrated into the process, I couldn't unpick it. Every question is about, is this growth going to be sustainable and what might get in the way of that? All of the ESG factors are critical. So, it's become so ingrained, it's beginning to disappear because it's just how we do and how we think about investing.

That leads us to another question here, which says. "What's MONKS' view on the future of hydrocarbons?" I guess, how do your thoughts on that play into the positions that you're taking in companies?

We've got very few hydrocarbon companies in the portfolio. We have a small holding in a gas company. Australian gas company, Woodside. All the hydrocarbons, we think gas will be the last to be disrupted and therefore, having a relatively secure low-cost supply of gas is politically very desirable. We've looked hard at the big oil and gas majors. We've tried to assess-, goodness me, we've probably met [marker 0:40:00] five or six of them and we've been trying to assess how they transition from what they do currently, to a vision of more electric cars, etcetera, in ten, 20 years. We haven't liked what we've heard. So, we are openminded to thinking that there could be growth from hydrocarbons because no one else is investing, but frankly, we can't find that type of business that we like.

So, we are much more geared into holdings in electrification. So, we own Li Auto and Tesla in electric cars. We own Albermarle, which is lithium miner. We one Nexans, which does high voltage electric cabling. So, we're much more on the electrification continue side of things than the hydrocarbon side of things. One holding. Remain openminded, but haven't found an idea that we like.

Looking a little bit at the future. Let's assess one of your holdings, Process, which sits in your top ten. What action has it taken to reposition for the future? I guess this is one of your soft hand technology companies that you were talking about.

I had the pleasure of meeting the interim CEO at Process and the CFO two nights ago, end of last week, I think it was Friday. This is a company who is a long-term investor in technology assets. It has a tremendous long-term record and it's trading at a very big discount to net assets. So, it is selling off it's shares in Tencent, the large Chinese social media giant. Tencent itself are buying back shares, but Process is selling off its shares there slowly and in a controlled way and buying back its own stock at a very big discount to net assets. So, it has bought back something like a third of the free-float in the last couple of years and it will continue to do so.

Because they've just replaced their CEO, they've got an interim CEO, they are working out their longer-term vision. So, I can tell you what it used to be, but I suspect until we let the new guy get under the table a bit and present his portfolio, I won't say too much about what they're planning to do. It would be fair to say, I think we're expecting quite a lot of change in that portfolio and we're expecting, over time, for them to exit some existing holdings and then to build up some new ones. If I had to guess, I think they are really excited about India. They're really excited about finding technology enabled physical network companies within India. That could be ecommerce or food delivery, etcetera.

I suspect what we will see there is selling a few mistakes that they've made and redeploying that capital into buybacks, but also into new ideas within India. They haven't done it yet and there's a new CEO, so quite a lot of caveats around how quickly we see that action.

In our last webinar, you talked about the fact that you felt like you should have been more interventionist at times in some of the companies that you're holding. You mentioned here today, that you've got around 119 holdings. One question is, "Do you think that's the right amount, given that last year you felt like perhaps you were a little bit slow to make some calls on some of the holdings?"

I think that number's coming down gently. I don't want to set an artificial target and move to that because that doesn't feel-, but it's case-by-case assessing the upside. If the upside has come through, then we sell. So, I think that number has been coming down. I think it will continue to come down gently and naturally. Just as a reminder, although I make a lot of decisions for MONKS, I've got two other colleagues that help me make those decisions and we're tapped into the entire floor of Baillie Gifford equity investors. So, I'm not having to keep all of those 119 names in my head at all times. You couldn't do that, but I've got a lot of colleagues that help and we have regular meetings. Weekly, monthly meetings where we keep on top of all the individual holdings. Yes, the number of holdings will come down marginally. It will still remain very diversified. I doubt it will go below 100, but it will come down a bit.

That takes us to another question. We've still got a few more minutes for questions, so if you have any more to submit, please do so now. One question here that asks, "How do you differentiate MONKS against Scottish Mortgage?" I guess that's in terms of approach, ethos, holdings. What's the difference there?

Scottish Mortgage has been run by Baillie Gifford investors since 1909, MONKS since 1931. So, we've been sister trusts for many, many decades. We've always had differences. So, these are neither good nor bad, these are just facts. Scottish Mortgage tends to be more concentrated. MONKS tends to be more diversified. Scottish Mortgage tends to have most of its money in what I would call our rapidly growing innovators. That's largely what they're trying to achieve. We've got a broader definition of growth. The cyclicals and the stalwarts as well. We tend to have a flatter portfolio. They tend to have their largest holdings, maybe approach 10% of the trust. Our largest holdings approach 3% or 4% of the trust.

We 've got a lot less in unlisted. So, I think they're close to 30% in unlisted, we're 4%. Which is a big, big difference. Most of our unlisted holdings come through a trust, another fund, not direct holdings, and we're a bit less geared. So quite a lot of differences. We're both long-term growth investors, but we have different approaches to how we think about the world. Generally speaking, those who are a bit more conservative seem to prefer MONKS. Those who are a bit more profit seeking seem to prefer Scottish Mortgage, but over the long-run we think both are strong. So, it depends what the individual investors prefer.

People are normally surprised because if I look at the direct overlap in holdings, it's only 18%. I think people expect, because we're managed out of the same investment house, for that to be higher, but they're considerably different from each other in terms of the portfolios. Does that help?

We've got time to squeeze in one more question which asks, "looking geographically, are there any trends that you're picking up from these bottlenecks that you're identifying?"

Europe and America have not built things for a long time. We've dismantled a lot of our skills and we're having to improve very quickly. So blue collar construction work, skilled work, that is a big bottleneck and I think that's both a challenge and exciting. So, I think the leadership in our economies may be changing a bit. If you introduce the threat of AI to knowledge-based industries, etcetera, I think we're naturally, a bit more of an equalisation here in society valuing different skills. I think if anyone's got spare time, train to be a plumber, train to be an electrician. That's the big shortages which we see coming up, as opposed to coding or engineers or biotech. Things are changing and they're changing very rapidly.

It's been a long time since we've had a big boom like this. We're at the early days of it and there'll be ups and downs along the way, but it was probably after the Second World War we had this big investment in infrastructure and we're just seeing that creaking everywhere. We're seeing the lack of homes, the lack of building in the UK, for example. We've offshored a lot of our manufacturing problems to other parts of the world and there's now a big political will to change that. So, I think an era of deglobalisation [marker 0:50:00] or less globalised is coming and that means we have to get ready with our own supply chains, our own infrastructure onshore. So far, America's work is reacting fastest to that, but the UK and Europe are catching up.

Spencer, thank you for that. Exciting times to come. Thank you for your answer there, but also, thank you for all of your answers this morning and thanks to everybody that submitted questions. I'm afraid that's all we've got time for this morning. So, I'm sorry if we didn't get round to your questions. Thank you so much for watching and thank you for submitting them. Thanks again to Spencer Adair for joining us for all of his insights and commentary. This is the last session for this year, but we'll be running more through 2024, so if you enjoyed today, please do keep your eyes peeled for future sessions.

Annual past performance to 30 September each year (%)

	2019	2020	2021	2022	2023
Monks Investment Trust	7.8	24.9	23.8	-30.1	-2.6
FTSE World Index	7.9	5.2	24.0	-3.0	12.2

Source: Morningstar and FTSE. Share price, total return in sterling.

Past performance is not a guide to future returns.

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[New slide for prominence;]
The specific risks associated with the Monks Investment Trust include:

- The Trust invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.
- The Trust invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.
- The Trust's risk could be increased by its investment in private companies. These assets may be more difficult to sell, so changes in their prices may be greater.
- The Trust can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid by the Trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the Trust will make a loss. If the Trust's investments fall in value, any invested borrowings will increase the amount of this loss.
- Market values for securities which have become difficult to trade may not be readily available and there can be no assurance that any value assigned to such securities will accurately reflect the price the Trust might receive upon their sale.
- The Trust can make use of derivatives which may impact on its performance.
- Share prices may either be below (at a discount) or above (at a premium) the net asset value (NAV). The Company may issue new shares when the price is at a premium which may reduce the share price. Shares bought at a premium may have a greater risk of loss than those bought at a discount.
- The Trust's exposure to a single market and currency may increase risk.
- Share prices may either be below (at a discount) or above (at a premium) the net asset value (NAV). The Company may issue new shares when the price is at a premium which may reduce the share price. Shares bought at a premium may have a greater risk of loss than those bought at a discount.
- The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.

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