UPFRONT: EPISODE ONE

Financial journalist Cherry Reynard, Intermediary Client Manager Megan Rooney, and Investment Managers Julia Angeles and Steven Hay discuss AI, Moderna's mRNA technology and the Baillie Gifford Managed Fund

As with any investment, capital is at risk. Past performance is not a guide to future returns.

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Cherry Reynard (CR): Good morning, I'm Cherry Reynard, your host for Upfront, where we bring you the latest insights on Baillie Gifford's UK funds. Today, I'm speaking with Steven Hay, co-manager of the Managed Fund, who'll be answering your questions, so do send them by clicking on the dropdown menu on the right-hand side of your screen.

Before Steven, we have investment manager and Baillie Gifford partner Julia Angeles unpacking the many ways Moderna is using mRNA technology to tackle diseases like Covid-19. But first, Client Manager Megan Rooney is here to answer some of the questions that have been filtering into the team over the last few weeks. Welcome to Upfront.

[Intro sequence]

So welcome, Megan. Now, you've been with Baillie Gifford for seven years and are a client manager on the UK Intermediaries Team. You're also the chosen representative for the team here on the programme. I wonder if you could kick us off by telling us the idea behind the programme?

Megan Rooney (MR): Yes, of course. Good morning, Cherry, and good morning to everyone watching. Thank you so much for joining our first episode. So, the reason we've created the show is that we know that there's increased demand from our clients, they want to hear more about what we're thinking about, what decisions are filtering into our investments, and of course to answer their burning questions. So, we created the show.

CR: Okay, great. Now, it's obviously been a tougher time in markets. I wonder if you can talk me through the past 12 months for the Baillie Gifford fund range?

MR: That's right, and I'm sure it'll come as no surprise to anyone watching this morning that the last 12 months have really been characterised by short-term performance and volatility concerns. It really has been a roller coaster ride for our clients. And we know for our newer clients it's been a particularly bumpy ride for them, especially if they've come in over the last 12 months.

So, with that, I think it's important to say that, first and foremost, our funds are volatile, they're going to be volatile, especially over those short-term time periods. And that's because we're looking to invest in exceptional growth businesses over the long term, so we will see periods of volatility. And I think that's important for our clients to have ongoing conversations with their own clients, to understand that their timeframes are aligned and that they can handle that level of risk with our funds.

Because ultimately, what we're doing isn't changing. We're committed to our investment philosophy. It's served us well for over a century. And we know that it can be difficult and uncomfortable, but over the long term we have faith that our conviction delivers returns on your clients' portfolios over that five, ten [year] time horizon.

And if you look at the majority of our funds, actually, over the longer time horizons, we are still performing ahead of the benchmark. So, I think we're just asking for our clients to have some patience with us, come on this journey, and really understand what they have in their clients' portfolios.

CR: Okay, so you remain optimistic in the longer term?

MR: Yes, of course, we remain really optimistic. In the period of underperformance that we've been going through, we've been doing a lot of increased risk and resiliency work, and a big part of that has been reassessing our companies. So, we've been testing to see how they fare in periods of higher inflation, and if the funding environment is more difficult.

And in the vast majority of cases, that output has been really positive. In general, our companies have got higher cash balances than the index, have lower debt, have really strong competitive advantages, which means that they can pass on that pricing power to the end consumer. And that puts all of, or the vast majority of, our companies in a really good position going forward.

Because I do think it's important to say that the backdrop for growth investing, more generally, will be a little more difficult. We're seeing GDP slowdown, we're seeing the threat of recession, lower productivity levels. So, your typical growth companies that are relying on GDP growth to fulfil their own growth, they will struggle.

But for the companies that we're investing in, that are disrupting, innovating, have really strong operational resilience, we think they're really placed well going forward, and over the next couple of years, we should see share prices start to follow that earnings growth.

CR: You hint at slowing levels of economic growth there. There are also lots of other things to contend with, like high levels of inflation, higher interest rates, even strike action. It feels like there's a distinctly 1970s vibe to the environment at the moment. Is that a parallel that worries you?

MR: You're right, there's lots of doom and gloom at the moment, and there are lots of parallels. We're seeing the energy crisis just now mimic the oil shock in the 1970s. There's a lot of geopolitical uncertainty as well. So yes, there's a lot of pessimism, but the one thing about the 1970s was that, despite all that negative sentiment, it was actually a period filled with innovation and a lot of the technological advances that were founded have actually paved the way for the life that we live today.

CR: So, tell me more about some of those innovations.

MR: An exciting one, and something really quite fundamental, that really catalysed decades' worth of innovation, would be the micro-processing chip by Intel, which was discovered in the 1970s. And that did really change the game. That formed the basis for modern-day computers and unlocked technological revolution that we're seeing for the last decade or so.

So, it's companies like that that we're looking for. At the beginning of the 1970s, Intel was relatively small. At the end of the decade, its revenues were up over 663 million compared to 4 million at the beginning of the decade. That's just one example, but I think that highlights that, even if there [is] prevailing pessimism from macroeconomics, that great businesses will continue to survive, and not only that, they will thrive.

CR: So, what are you telling clients about why Baillie Gifford still merits a place in investors' portfolios?

MR: There are a few things on that. You'll have heard us before talk about Moore's Law. Moore's Law was founded by Gordon Moore, who incidentally was the founder of Intel. And if you aren't familiar with that, that is the basis that computing power roughly doubles every couple of years.

So that means at the end of the next decade we're looking at 60 times greater computing power. If we extrapolate that out over the coming century, we're going to have whole new jobs, industries and technologies that we actually can't think about just now. It's really exciting. So, it's those opportunities that we're thinking about.

CR: Yes, I imagine that if somebody had told you, in the 1970s, that our lives would be controlled by these tiny little handheld mobile phones, that they would have raised an eyebrow or two.

MR: Exactly. So I think for us, we believe that our competitive advantage is doing that bottom-up, fundamental research, getting to know companies really early, and we can do that through our private equities, through our investment trusts, build really strong relationships and have them in clients' portfolios to deliver exceptional returns. So for us, if you want access to the companies of tomorrow, that's why we still warrant a place in your portfolio.

CR: Okay, great. Now, obviously market volatility has dominated conversations, but I wonder if you can tell us what else is on advisers' minds at the moment.

MR: Definitely AI. So, I think, it's in the media a lot, and there is this perennial worry that it's going to steal some of our jobs, and what the future of AI looks like, especially with [what] we saw [from] ChatGPT over the last couple of months.

CR: Let's talk about ChatGPT. How does that actually work?

MR: Apart from being a mouthful, it's a sophisticated chatbot that scours tens of millions of pages of the internet, and it can produce an output from an input. So, we could ask it to write an essay or write some code. And it is really sophisticated. We saw various different versions of it come out, we're currently in the fourth version, and it's amassed a huge amount of users, currently 100 million users a month.

CR: But there are more than one form of AI, is that right?

MR: That's correct. If we roll it back a little bit to why we shouldn't be at panic stations yet, there are two forms of AI, you're right. There's narrow AI, which is quite narrow in scope, [as suggested] by its name. It's like ChatGPT, it's analysing datasets and creating an output. So other examples of that would be the likes of Netflix, Amazon, Spotify. They're all using narrow AI algorithms to curate content and products based [on] what we've interacted with.

The second type of AI, where there is some worry, would be general AI. General AI would be when the AI is showing human-like, brain-like function. But, it's important to say that we're not yet at that breakthrough. Scientists are really quite split, actually. Some don't think we'll ever get there, and some think it's a decade or so out.

And what that would look like in a practical sense would be, for example, autonomous cars. We know Tesla are working on that technology, and they're making some great strides, but until we have that breakthrough in general AI, we're still some time off between a car sitting on a road and it being able to intuitively take in everything around it.

CR: As you mentioned earlier, the perennial concern with AI is that it will take jobs that might otherwise be done by humans. I think a recent Goldman Sachs report said up to two-thirds of US occupations are exposed to some degree of AI automation. Is that a worry?

MR: Definitely. I think it's something everyone has to keep an eye on going forward. But at the moment, because we do still have those limitations, I think it's best used with human intervention and taking some of that burden off of menial tasks, similar to maybe how accountants feared Excel a while ago.

So yes, there will be worries, but there [are] still obviously limitations. We saw scientists do an experiment where they were teaching AI, hopefully, to diagnose malignant cancer growths. And when you dug in the surface of that, it looked great, but when you actually went under the bonnet, what had happened is that the AI had taught itself rather than the characteristics of the tumours, that rulers were malignant.

So not really a great outcome. It had picked up on something that was completely wrong. So it definitely still needs human guidance. But certainly in other industries, the ramifications for it are going to be really powerful.

We're seeing that just now in agriculture. Deere are using it for precision agriculture to help improve crop yields, and that's going to be really important, especially as we're seeing climate patterns shift.

So it's hugely exciting, and I think there is a worry but where we get to and what that looks like is something that I think we all have to, and governments have to, keep an eye on.

CR: Thanks, Megan, that's really interesting. And then just finally, for advisers watching, what would you recommend they were keeping an eye on at the moment?

MR: One last thing I think, again, everyone who's watching will know, will be Consumer Duty. Make no mistake, the FCA have been very open that they're not changing the deadline of the 31st of July. So if you and your firm still don't understand what's required for you, or you're looking for a little bit more information, the FCA are hosting a range of events around the country. If you would like to sign up to them, please go on the FCA website for more information.

CR: Great, okay thanks, Megan. Now, there will be an opportunity to have your questions answered at the end of the programme, so please do write in using the dropdown menu on the right-hand side of your screen.

Now, as part of the programme, we will be featuring an in-depth look at some of the transformational companies that Baillie Gifford invests in. Today, we're looking at Moderna, which is best known for its Covid vaccine but does much, much more, so Julia Angeles is here to tell you all about it.

[Stock story transition]

Julia Angeles: The drug development process remains hugely inefficient. It is long, costly and with a high failure rate leaving millions of patients without effective treatments. On average, it takes more than 10 years and costs more than a billion dollars to bring a new medicine to patients.

Moderna is a Boston-based life science company which is pioneering the use of messenger RNA across all imaginable diseases. They are doing this at a speed and scale never seen before in the healthcare sector. This is possible because messenger RNA is a piece of genetic code that allows us to program for any protein. Proteins are the essential biological building blocks that all living organisms depend on to function. For example, in many human rare diseases, the body fails to produce certain proteins. Moderna's technology allows us to produce these missing proteins in exactly the same way as if we produced [them] naturally. In the case of Covid-19, Moderna's technology coded for the spike protein, that will be recognised by the immune system, which allowed us to build the immune defence against the actual virus.

Moderna is a true disrupter of the drug development industry as it is moving the industry from an analogue to a digital age. This is much more profound, and radical, compared to what Amazon has done to the retail sector, because it concerns human health and it is one of the most risk-averse industries. We have already seen the power of messenger RNA during the Covid-19 pandemic. Never before [have we] been able to develop an effective vaccine within such a short period of time. The speed of development and efficacy profile of the vaccine have been truly remarkable compared to other technologies. With Moderna's advancements working with flu and RSV, and an ability to combine the immunisations of these infectious diseases in one shot, the company has an incredible opportunity to radically disrupt this market.

Moderna is a unique company, because it is the first time we see a real opportunity to make drug development a scalable business which resembles a technology company. This is because of the underlying nature of messenger RNA, being a programmable medicine, combined with Moderna's approach to digitalisation of its operations and organisation. Currently, the company has 48 programs in clinical development and many more are cooking in its labs. This scale could allow Moderna to address some of the largest death causes around the world, like cancer and infectious diseases. Moderna's medicine has a potential to impact every life on this planet.

CR: Truly amazing, it really feels like there is no end to the possibilities of Moderna's technology. Now, to open up the conversation more widely, with a fund update from Steven Hay, who is a co-manager on the Baillie Gifford Managed Fund.

So welcome, Steven.

Steven Hay (SH): Hi, Cherry.

CR: You joined Baillie Gifford in 2004, and also spent seven years with the Bank of England's Monetary Policy Committee. You were even involved in managing the UK's foreign exchange reserves. I wonder if you can tell me how this all comes together, and you bring this experience, and unique insights, into your current role?

SH: Well, I think one element is that we go through crises periodically, and having been investing for a long time, you're aware that this does happen and we recover from crises. So it's, don't panic too much if the market is down significantly, that's maybe one thing.

Another thing is that I had a lot of macroeconomic experience at the Bank of England, so thinking about how the economy is changing, and particularly inflation, has been really interesting in the last few years, I feel there are a lot of insights into that recently.

But actually, I think the biggest thing, for me, what I've learned over the last 30 years, is about the behavioural aspect of investing. It's how you keep the passion for finding those great investment ideas, but when it comes to the decision-making on the portfolio, and the holding sizes, it's keeping a cool head and keeping that passion under control. I think that's the difficult balance you have to strike as an investor, and that's one thing you hopefully learn over time.

CR: Okay, great. I wonder if you can give us a quick recap on the Managed Fund, what it does and what it hopes to achieve.

SH: We think of the Managed Fund as a one-stop shop for the best of Baillie Gifford ideas. So, it's a combination of regional equity portfolios, plus some bonds there for balance. We run with a strategic asset allocation, which is about 75 per cent in equities and 25 per cent in bonds and cash, so a more balanced portfolio than you would get from an equity-only portfolio. And we can vary that asset allocation depending on the enthusiasms of the different managers for potential returns in the different sectors.

CR: Can you tell me about the Managed Fund's recent performance, and in particular, why it's lagged the peer group?

SH: Well, it's been a very volatile period, and Megan did reflect on that earlier. So, after a very good 2020, we saw real reversal last year, and that's been very tough for investors in the Managed Fund who've just come in in the last 12 to 18 months. So, a very difficult time, and we're very aware of that and thinking hard about that.

Relative to the peer group, the peer group is a 40 to 85 shares sector, so there's a lot of variety in the peer group. We, as I mentioned, have 75 per cent roughly in equities, so at the higher end of the peer group in terms of equities, so that's one impact, more volatility coming from that.

We're also in growth equities, and it's been a difficult environment. Interest rates have gone up, we're discounting future profits by more, and that's been tougher for growth equities, that's another reason. But we are active managers, so we need to be different from the index and the peer group in order to beat it. That's our philosophy.

So, we do expect volatility over short periods, that is, to some degree, to be expected. But very importantly we're also long-term investors, and we do ask our clients to judge us over rolling five-year periods. And over that period, we remain top quartile.

CR: Thank you. Megan said earlier that Baillie Gifford is not about taking big macroeconomic calls. But I wonder if that's slightly different for you as a fixed income investor, and actually whether that can create opportunities?

SH: Yes, my equity colleagues would definitely say the macro is secondary and it's all about the individual company specifics that's the most important thing. So that's what they would say. But on the fixed income side, macro is more important. As we look across the fixed income universe at the moment, we've seen a big repricing of yields upwards, so it's definitely more interesting.

As we look across that universe, we see actually in emerging markets, yes, inflation has been higher but yields have really moved up significantly. And actually inflation is better controlled in emerging markets, I think, than it is in some of the developed markets.

If we take the likes of Mexico, for example, [in] Mexico we have yields [of] about 9 per cent. Inflation is coming down sharply. Mexico has a tailwind of companies that have outsourced to China, pulling that back and maybe nearshoring to Mexico, so a big tailwind for Mexico. So that's one bond position that we like, we find attractive.

Another in a similar vein is Peru, where again yields are about 8 per cent, inflation has been high but is coming down, and those yields will come down in our opinion, so capital gain as well as a high yield. And Peru, of course, is a big copper producer. Copper is vital in the energy transition, so a real tailwind to Peru from that.

So, within the fixed income universe, definitely more interesting opportunities, and the emerging market space is perhaps the most exciting at the moment.

CR: And let's look at the role that the fixed income portion plays in the portfolio. Is it for capital growth, is it for income, is it for diversification, or is it some combination of all three?

SH: A bit of a combination of all three, as you allude to. It's definitely there for balance. The point of the Managed Fund is to be a more balanced offering. It's our most diversified portfolio at Baillie Gifford, and bonds are there definitely to provide that balance.

Bonds are usually not correlated with equities, particularly, and much less volatile than equities. Obviously, the last year was maybe a little bit different, but usually that's what happens, so that's why they're in there, to provide that balance and diversification.

But we're absolutely active in the bond space as well, so we are trying to pick the best bonds that we can to deliver capital growth in the long run for the Managed Fund. So, it's definitely there for balance but it's also for active return.

CR: There's obviously been some market jitters around the banking sector, with Silicon Valley Bank and Credit Suisse. Is that still a concern, or has that largely settled down now?

SH: I don't think it should be a surprise to anyone after the extent of the interest rate rises and bond yield rises that we've seen that problems are beginning to emerge in different areas of the economy or the financial markets. I don't think anyone would have predicted exactly Silicon Valley Bank, but that some bank might get into trouble I think is probably to be expected.

I would say more broadly in the banking sector, it's much better capitalised than it was in the past. I don't think there are broad systemic risks in the banking sector, so that's not something we are particularly concerned about, but I would say, for our portfolios, we don't find banks a particularly interesting place to be.

We have maybe 2 per cent of the portfolio within banks, because we just don't see the return potential in the long run as being that attractive. And there are lots of opportunities for newcomers to the sector to disrupt and take market share away from the traditional banks, so it's certainly not a big part of the Managed Fund portfolio.

CR: One area where you do have a relatively high weighting is industrials, which is not necessarily a sector I would associate with Baillie Gifford. I wonder if you could talk me through what that looks like?

SH: Absolutely. People do think of Baillie Gifford as just tech, and that's just not the case, and especially for the Managed Fund, which, as I mentioned, is the most diversified portfolio. So, we do have Tesla, it's a 1 per cent holding in the portfolio. Industrials is a reasonable weight in the portfolio, and absolutely you can find growth companies within the industrial sector. You have to look hard, but you can absolutely find them.

And we're looking for companies that are not just dependent on GDP growth. We're looking for companies that are doing something different. So to give you an example, Atlas Copco, this is a holding we've had for nearly 20 years in the portfolio. It's a Swedish industrial company, and it's all about great management.

They're making industrial components and sensors and a variety of things, but it's about how they do it. It's about making production more efficient, localising production, doing all those things. Very impressive. Compound revenue growth over 10 per cent for 20 years. It's a great story and remains a key holding in the portfolio.

Another one would be Nexans, which is underwater cabling, cable under the sea. And not perhaps the sexiest story until recently. Over 100 years Nexans have been going for but, of late, with the energy transition, it's key to get the electricity back onshore from these offshore wind farms. So undersea cabling is a key part of that story, and there aren't that many companies that can do it. Nexans is one of them. So that's a big trend in the global economy that we're backing, through our holding in Nexans.

CR: Okay, interesting. And let's wrap up by just talking about one opportunity, highlighting one opportunity that you're really excited about in the Fund.

SH: You might expect me to say fixed income, being a specialist in that area, and there are opportunities. But actually what I would pick [is] the nexus between healthcare and technology. Julia's film was persuasive on Moderna, but there are a lot of opportunities in this area, and I think it's very exciting. There'll be a lot of demand. People really care about their healthcare, and as the opportunities for new products develop, I think the demand will be very strong.
Two companies we particularly like in there, CRISPR Therapeutics, it's an American-Swiss biotech company, it's all about gene editing to provide drugs that are really on the front line for sickle cell disease, for example, but also it can be used for cancer in time.

Another one would be Evotec, which is a German biotech company, and they're using AI to help improve or speed up the drug discovery process, so that'll be hopefully a really important thing in that area. So, I would point to that area as one area we're particularly excited about.

CR: Okay, great. And now, it's time for our Q&A session.

So, we've had a number of questions in from the audience. Perhaps a first one, have there been any changes to process or lessons learned following the period of poor performance?

SH: So, we've been thinking quite hard about this, because there's been a big fall in performance of recent. So, I would say, first of all, there are no changes to the people that are involved. In Baillie Gifford, we usually hang about a long time, so people work together for a long time, so no changes to the team, and no broad changes to the process. We've been doing things the same way for the last 30 years in the Managed Fund, and even longer at Baillie Gifford, so looking for the best growth companies, globally.

Having said that, we're aware that we make mistakes all the time and we always have to learn from them. So looking back at the episode over the last 18 months or so, it's definitely thinking that maybe we did extrapolate too far the trends during Covid, how far that would persist post-Covid, and maybe we just have to learn from that and maybe aim off for some of these big changes in trends.

But broadly speaking, we don't think we've got much wrong on the company side. It's been the environment for growth equities that's been particularly difficult. We have to adapt to that, so we have to think and make sure that we are picking the growth companies for the environment that we are facing for the next five to ten years, and that's about thinking about the resilience to higher interest rates and higher inflation and making sure that our companies are resilient.

And it's very reassuring on that front, because our companies have much lower debt than the index and are, on the whole, cash flow-positive, so our companies do look very resilient. Operational performance is really good. So having looked very hard through all the different investment cases, to make sure they still stack up for the future we now face, we remain pretty confident on that front.

CR: And I guess this is sort of along the same lines. The latest factsheet suggests the Fund has quite limited exposure to oil and gas, which was obviously one of last year's top performers. Do you regret not having more over the past few years, or are you comfortable with what you hold?

SH: You're right that. In the short term, that seems like a good position to have held, to have held oil and gas. For us, it's all about the long-term growth, so we have to be confident that the companies that we hold can deliver good earnings growth over that five to ten-year period. So that's what we're all about at Baillie Gifford.

There are very few companies in that sector that we do think can do that, hence why the weighting in oil and gas is very, very small in the Fund. So it's all about looking at that potential and being confident in the opportunity. And these are, largely speaking, to our **view, companies** of the past rather than companies of the future, and therefore that's why they don't merit much of a position in our portfolio.

CR: Okay, thanks. Now, I imagine this is a question on lots of people's minds at the moment. Do you believe inflation has stabilised in the US, and do you see a US recession on the horizon?

SH: I think inflation has definitely peaked in the US and is coming down. We know that. The big question is where it will settle. Personally, I think inflation could be a bit stickier than some people expect, so I think it's perhaps a little bit more embedded. I think in the UK that's even more true than in the US.

But we've seen the peaks in inflation and I don't think we're far off the peaks in interest rates. But I'm maybe not as bullish as some people of inflation coming down very quickly and very sharply, so I think it's going to hang around and be an issue for a bit of time.

In terms of the recession, I'm actually a bit more optimistic than the consensus. Everyone seems to expect the US is heading into a deep recession. I see quite a lot of resilience in the economy, in the labour market. I think the consumer is in actually pretty good shape, so I'm not… We're clearly slowing down a bit, but I don't think we're heading into the deepest recession. But some of these macro things are actually quite difficult to forecast.

CR: Yes. This is on the same lines, actually. You mentioned you're adding two emerging market bonds. How do you view default risk in those areas?

SH: It's very much on a case-by-case basis. As I mentioned earlier, the fact that interest rates have risen significantly does pose challenges to come companies. The ones that are most indebted, or the countries that are most indebted, are the ones that could potentially suffer the default risk rising. So that's something we take into account in all of our analysis, and we have to make sure the ones we hold are the ones that we're confident don't have that default risk.

And sometimes the market can treat everything the same, so it can look at a lot of companies in the same sector and push all their yields up. And actually, it's about picking the ones that aren't as exposed to that default risk the market might be pricing in. That's what we're all about, trying to find those companies we think the market's taking the wrong view on.

CR: And then just finally, Baillie Gifford are known as stock-pickers. How does this translate to your selection of fixed income securities?

SH: Similar but different is how I would say it. It is about stock-picking and finding bonds where we've got a different view from the market, we see something that the market doesn't see. But on equities, a lot of it is about the potential upside. On bonds, it's much more thinking about protecting the downside, so thinking about the risks of that.

But just to give you one example of what we're looking for, a company called InPost, which is a Polish company which is rolling out delivery lockers within railway stations and other venues. It was great environmentally but is doing very well as a business model.

They had to borrow some money in the debt markets to fund the rollout of all these lockers. The market sees debt, sees it as risky and is pricing that company as riskier than we believe it is based on the attractiveness of the business model and the great operation performance it's delivering. So we've got a different view from the market and we'll put a position in the portfolio. So we are stock-picking, if you like, on the bond side as well, but different things to think about.

CR: Great. Thank you, Steven, for all those insights today.

And thank you all for joining us. To find out more about the topics we've talked about today, please do go to the website, bailliegifford.com. And also, our adviser team is here to help, so don't be shy and please do get in touch if you have any questions.

We'll be back in June to hear more from Megan and, this time, from the US equities team. So, until next time, goodbye.

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Baillie Gifford Managed Fund Annual Past Performance to 31 March each year (%)

	2019	2020	2021	2022	2023
Baillie Gifford Managed Fund B Acc	8.1	-0.7	47.9	-9.7	-6.3
IA Mixed Investment 40%-85%	4.5	-7.8	26.3	5.4	-4.3

Source: FE, StatPro, net of fees, total return in sterling. Class B Acc Shares. 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.

Past performance is not a guide to future returns.

Investment markets can go down as well as up and market conditions can change rapidly. The value of an investment in the Fund, and any income from it, can fall as well as rise and investors may not get back the amount invested.

The specific risks associated with the Managed Fund include:

- 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 dealing, settlement and custody 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.

- A dilution adjustment may apply when you buy or sell shares in the Fund. This is applied to the share price and may reduce the return on your investment.

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- Under certain market conditions it can be difficult to buy or sell securities and even small purchases or sales can cause their prices to move significantly. To manage the effects of this, we may apply an increased dilution adjustment. As a result investors may face increased dealing costs.

- 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.

- Tax rates and the tax treatment of OEICs can change at any time.

Further details of the risks associated with investing in the Fund can be found in the Key Investor Information Document, copies of which are available at **www.bailliegifford.com**, or the Prospectus which is available by calling the ACD.

Important information and risk factors

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