

SCHIEHALLION MANAGER INSIGHTS

Deputy Manager Robert Natzler reflects on the performance of the Schiehallion Fund over the last year and explains why the team is feeling optimistic.

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

This communication was produced and approved in May 2023 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

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

Outlook

I'm Robert Natzler, deputy manager of the Schiehallion Fund.

Looking backwards, we are disappointed with what we've delivered for shareholders over the last 12 months. Looking forwards, we feel a sense of real optimism for both the existing portfolio companies, and for the opportunity to access new investments at attractive prices.

Performance

Our aim is to generate net returns of three times invested capital over rolling 10-year periods. During the year to the end of January 2023, the NAV return of the ordinary shares was -24.5 per cent and of the C-share portfolio was -18.4 per cent. This pain was exacerbated by share price swings from significant premia to a discount to NAV.

Whilst we expect periods of volatility and underperformance as part of the winding road to long-term capital growth, 2022 was thus undoubtedly a step backwards. We are conscious that this will have been particularly felt by newer investors, who had not experienced the strong performance of the ordinary shares during the prior two years.

2022 was also a frustrating year for deployment. Many good companies chose not to raise capital due to adverse market conditions. When they did, there was often a mismatch between their valuation expectations and what we believed represented market conditions. The net result was



slower deployment from the C-share pool than anticipated. As of the 31st of January 2023, approximately 79 per cent of the C-share proceeds had been deployed.

Portfolio update

We believe that shareholder capital is invested in some of the best private companies in the world. At the end of 2022, the six largest holdings were SpaceX, Scopely, Bytedance, Solugen, Wise and Northvolt.

This diverse set covers businesses making money selling access to space; to virtual in-game goods; to advertising; to speciality chemicals; to FX markets; and to lithium-ion battery systems. Each of these companies has strong founders, robust competitive advantages and huge addressable markets. Looking at the whole portfolio, the average revenue growth rate was just over 50 per cent in the last 12 months, with the vast majority of the portfolio having more than 12 months of cash runway.

Some companies met challenges in 2022. Consumer-facing companies that saw leaps forward in demand over the pandemic years saw their growth rates fall. We saw this in Affirm, Warby Parker, Masterclass and Pet Circle, among others.

Epic Games faced a different kind of challenge: they were fined by the Federal Trade Commission for historic issues around online child protection and payment practices. These issues had long since been rectified, but still represent a company falling short of the standards we expect.

Looking forward

2023 has got off to a good start. Several well-known private names have had widely-publicised capital raisings, at lower valuations than their prior rounds. We believe that this will go a long way towards normalising price expectations among employee shareholders across the private company space, making it easier for other companies to contemplate lowering their valuations, too. As such, the team has been out on the road, in Australia, Singapore, China, Mexico, Italy, Germany and Israel, as well [as], of course, the United States, building our shopping list and pipeline for what we hope will be a terrific time to be investing in private businesses.

As we go into this year, we want to thank shareholders for their support over the last year. We believe our proposition, around long-termism and alignment with companies, is more relevant today than it has ever been. And we maintain our conviction that this will lead to attractive returns for shareholders over the long term.



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

	2019	2020	2021	2022	2023
Ordinary shares	N/A	17.0	26.9	7.1	-60.7
Ordinary shares NAV	N/A	7.6	32.1	5.1	-20.1
C-shares**	N/A	N/A	N/A	N/A	-67.0
C-shares NAV**	N/A	N/A	N/A	N/A	-13.4

Source: Morningstar, share price, total return, sterling.

*The Schiehallion Fund was launched on 27 March 2019.

**C-shares were made available from 26 April 2021.

Past performance is not a guide to future returns.**Important information and risk factors**

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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.



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

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