BAILLIE GIFFORD UK GROWTH FUND PLC – STOCK STORIES

Third Quarter 2019.

Investment managers Iain McCombie and Milena Mileva give an update on the Baillie Gifford UK Growth Fund plc and discuss some examples of companies within the portfolio that show exciting growth potential.

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.

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A Key Information Document for the Baillie Gifford UK Growth Fund plc is available by visiting www.bailliegifford.com.

Iain McCombie (IM): Why invest in UK equities? It's a really important question. Now, the actual problem, we think, is that people perceive the UK as being a terrible place for growth companies. The reason people think that is because they look at the largest companies in the UK and think they're not very attractive to invest in.

Now, as growth investors, we totally agree with that, but what that analysis misses are the really interesting growth businesses below the radar screen that are really attractive. Some of them are really well-known businesses, like Hargreaves Lansdown, but there are other ones that perhaps you haven’t heard of, but they are global leaders in their sector and Genus is a fantastic example of that.

Milena Mileva (MM): Genus is a world-leading animal genetic improvement company. Global demand for animal protein is growing, but livestock farming is a very resource intensive activity which takes up a lot of land and water. So, farmers have a very strong incentive to adopt technologies which enable them to produce animals much more efficiently and more sustainably.

And it's exactly what companies like Genus are helping them to do. We think Genus has the leading pork, beef and dairy genetics in the industry and we think it outspans its competition significantly on research and development.

One of the most exciting innovations the company is currently working on is around creating a solution to the porcine respiratory reproductive syndrome virus, this is one of the most deadly and costly diseases which affects the global pork industry every year.

It's estimated that it wipes out about 2 billion of farmers’ profits in the US and in Europe and there is currently no cure for it. So, Genus has been adopting cutting edge genetic techniques in an attempt to breed animals which are resistant to this virus. The company has been investing very heavily in this area and collaborating with leading academics and biotechnology companies. And it has established a programme in the US, a development programme, which has been successfully progressing through various regulatory milestones.

The really exciting development, however, came in the beginning of this year when they announced a partnership with one of the leading Chinese genetic improvement companies to basically bring

this genetic programme in the Chinese market and to go through regulatory approval and commercialisation.

We think this is a fantastic opportunity, as China is the world's largest pork market and the long-term ambitions and the generous financial backing by these Chinese partners, we think, provides very strong validation of Genus' strong technological lead in this area.

IM: We really like investment platforms. We own Transact - it’s holding company is called IntegraFin - we own AJ Bell and we own Hargreaves Lansdown. Now, why do we like these investment platforms? Well, for two main reasons. The first one is that they are very convenient for the consumer; what I mean by that is you can access all your shares and funds in one place.

Now, the second thing, which I think is very important, is what's happening in pension legislation. We had a big move from defined benefit to defined contribution. What effectively that means is that the consumer has to fend for themselves and the platform allows you to do that in a very easy and convenient way.

Hargreaves Lansdown is one of our largest holdings, because we think the investment opportunity is huge. They have 40 per cent of the market in the direct consumer platform, which I think is testament to its brand and its good service proposition to customers.

The great thing for shareholders is that scale gives you profitability and the margins at Hargreaves are some of the highest in the industry. The share price of Hargreaves has been hit in the short term by its links to Neil Woodford.

Now, the actual exposure of Hargreaves' clients to Woodford is about 1.7 per cent of its total assets. So it's not that large, but potentially the big risk, and it's something as a long-term investor that we're very concerned about, is will there be any reputational damage to the business? So, what are we doing about that? Well, what we've done is speak to the management about it and express our concern as supportive long-term shareholders.

We’re convinced that the company are taking it very seriously. They are reviewing their process to see what they can learn from that, and that's something that we'll be continuing to monitor and engage with the management over the coming months.

What we also like about Hargreaves is the fact that they're looking for new markets and new propositions. And one that I'm particularly interested in and excited about is their Active Savings product. What that does is allow you to move your money across various bank accounts on one platform to get the highest rate of interest.

So, it's a great proposition for the consumer and I think it's going to have a much bigger market in the future and Hargreaves have got first mover advantage there.

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