**Baillie Gifford Managed Fund**

**Capital at risk.**

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

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| **Baillie Gifford Managed Fund B Acc** | 16.5 | -28.2 | 6.4 | 16.0 | 9.8 |
| **IA Mixed Investment 40-85% Shares** | 16.8 | -9.6 | 5.0 | 13.8 | 9.9 |

Source: FE, Revolution. Net of fees, total return in sterling. Class B Acc Shares. Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

Past performance is not a guide to future returns.

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.

**Hello and welcome to this programme from Baillie Gifford. The latest in a series of webinars where we talk to the managers of the business' investment trusts and funds. My name is Danielle Levy and today, I'm joined by Steven Hay, comanager of the Baillie Gifford Managed Fund. Steven, welcome, thank you for joining us.**

Thank you, nice to be here.

**It will be good to kick off by discussing the environment we find ourselves in today. So, we've seen a decade of low inflation, a strong dollar. US mega-cap concentration. So, I'm interested whether you feel that global markets are starting to shift and if so, what are the implications of that?**

You're right. Over the last decade you've seen US equities have performed really strongly. To illustrate, their share of the global stock market index has grown from around 50% to around 65% now. That's actually been a headwind for long-term active stock pickers like us because our starting point is to divide our equity allocation equally between the US, Europe, the UK and emerging and developed Asia. The global picture is shifting, as you're alluding to and I think it does increasingly support a more balanced approach. The US dollar has weakened. The debt burden has grown and there's definitely more policy uncertainty around.

By contrast, if you look at Europe and for the first time in a while, there's actually a pro-growth agenda coming through with all the big fiscal stimulus coming through, particularly in Germany. Japan's finally exited deflation. You've seen trade between emerging markets, which is strong and growing and sentiment towards China's improving. This could finally result in a sustained period of good performance from markets other than the US. The Managed Fund is really well-positioned to take advantage of this because it's got those equal allocations between regional equities plus the fixed income for balance. With no compromise on growth or quality.

**You finally think that this era of US exceptionalism is coming to an end.**

Well, I wouldn't say US exceptionalism is over. I do think it's changing shape a bit. For me, the exceptionalism story has two legs. The first leg has been that the US has been an incredible engine for innovation. It's got many of the world's most innovative companies and many of them are in the Managed Fund. That fact is not disappearing. Some of our large holdings are American companies. Companies like Amazon, Nvidia, Meta, Netflix. In fact, our top position is Amazon. It's been a longstanding holding in the fund for many years and it's a prime, if you pardon the pun, example of a company that continues to innovate and dominate. It is an exceptional company.

I think the second part of the exceptionalism story is about the level of general economic growth that the US has managed to be significantly higher than all the other regions. That's helped US companies more generally. Going forward, we see that growth gap closing between the US and other regions. That growth differential will be less exceptional. Although growth doesn't always translate directly into stock market performance, I think it is likely to help the returns in non-US markets over the coming years.

**You alluded to it there and, I think, in your first answer, but if we bring it to the Managed Fund specifically, why do you believe a balanced asset allocation is critical today?**

We're coming out of a long period when growth, inflation and interest rates were all fairly predictable. That's just no longer the case. Different markets are going to respond very differently to the different forces at play. The technology, the geopolitics, the demographics, energy transition, just to name a few big themes. For us, it's vital to have a mix of assets that can perform across a range of outcomes. For us it means staying open-minded. It means owning the innovative, high growth businesses. The ones that we have the most conviction in. They can really compound over time. Also, balancing that with more resilient holdings that can help protect capital when conditions change. It's that balance that's really at the heart of our approach to the managed fund.

It's giving clients exposure to long-term growth, but at the same time, being conscious of the risks involved and making sure there's enough diversification. We do expect the market concentration in the US. We do expect to broaden out to other markets and that should play well to a more balanced regional allocation. Actually, we believe that now is a pretty good time for investors to consider a diversified approach, combining regional equities and fixed income.

**How is the portfolio positioned?**

As we move through the fourth quarter, Christmas rapidly approaching, we remain pretty optimistic. We're currently, in terms of our asset allocation, slightly overweight our strategic weighting in equities. Just above 75% in equities. That really reflects our positive view on global growth. Within that, we do hold small overweights in the UK, in Europe, in developed Asia, emerging markets. That's where we see really attractive opportunities and supportive macro conditions underlying those. Questions often arise about the fund's modest US weighting. We have just under 20%, that's our typical strategic weight in US equities. It's a little bit below that at the moment. The managed fund is designed to balance the regional equities in fixed income and to seek opportunities beyond any single market.

It really does help to get away from that real concentration risk of the US absolutely dominating any index. You'll see that when you look through the portfolio, that the fundamentals supporting the strategy look really strong. The consensus forecast earnings for our companies are much higher than the index. Over 90% of the holdings are currently profitable, which in the past, it's not been quite as high at that. We hold companies that are significantly less indebted than the index. Pretty robust to rates staying higher for longer, if that's what happens. Our bond portfolio is a solid investment grade rating. Lots of enthusiasm. Lots of balance and well spread out across the fund.

**I wanted to talk to you about the bond exposure because you moved to a 60/40 allocation between government bonds and corporate credit earlier this year. I understand it was previously more like 50/50. What was the logic there?**

We typically hold our bond portfolio, which is around 20% of the managed fund normally, we usually hold it 50% in government bonds and 50% in corporate bonds. That's our natural holding place. Now, we did get concerned that valuations in corporate bonds were quite expensive. The additional yield you get from a corporate bond, relative to a government bond, that had compressed significantly. Given the risks that we saw earlier in the year, to do with the tariffs and macro uncertainty, we felt that that risk wasn't being fully-, you weren't being fully rewarded for that risk with where that additional spread was. We did move a little bit more in favour of government bonds at that time.

Now, in fact, there's been less impact on the economy than we had-, well, not a big fear of ours, but there's been less impact on the economy and more good results coming through from companies. We decided to move to a 50/50 weighting. Although, I have to say that corporate bonds still look fairly expensively valued, relative to governments. It's a constant dialogue between the corporate bond investors and the government investors. Often the point is made that maybe government bonds aren't the risk-free asset anymore. There's maybe a reason why their yields have a little bit more risk in there. Lot's that we're constantly discussing, but we're back to 50/50 at the moment.

**Keen to talk about the equity allocation as well. I know that you're growth investors. What do you believe your edge is when it comes to identifying companies which have the potential to disrupt large markets?**

I think our edge comes from our time horizon and from the mindset with which we invest. We've always believed that the real disruption takes years, often decades to playout. We're not trying to trade short-term trends in the market. We spend all out time trying to understand which companies it is that have the ambition, the culture, the leadership to really transform industries over the long-run. We've got that mindset of being a long-term supportive shareholder. We often build deep relationships [marker 10:00] with founders of companies and their management teams and that access allows us to really understand how they think about the growth of the company. How they think about the culture and how it might change and the risks involved.

It's that knowledge that gives us the confidence to stay invested through the ups and downs that come with the genuine innovation. We've seen that playout many times in the likes of holding Telsa and Amazon over the years. You see some periods of very great performance, market loving and maybe falling out of favour. It's that mindset and the time horizon that's the difference. I don't think our advantage is about spotting the next big thing first. I think it's about having that conviction and the patience to stay with it and stay with exceptional companies as they evolve and realise their potential, even when it can be out of favour with the market.

**Have you made any recent changes to the fund? It would be good to talk us through the rationale behind these as well.**

We certainly haven't made any big changes, which is what you would expect from us. Our turnover is typically less than 15% a year. On average, we'll hold a company for at least seven years. We're really just refining the portfolio around our highest conviction ideas. We want every holding to earn its place, if you like, in the portfolio. It's really been about selectively recycling capital away from the lower conviction holdings and moving it towards the opportunities where our long-term confidence is stronger. As examples, we did sell out of Genmab recently. It's a Danish biotech company. It's interesting because it's got expertise in antibody engineering. It's obviously a hot topic in medicine at the moment.

We like the trend, we like that theme, but the company was facing a number of patent expirations and the research pipeline had fallen a bit. Some legal issues with its distribution in Asia. We decided to exit in favour of some higher conviction ideas. One of which was Knife River. Knife River is a building materials company in Northwest US. It's vertically integrated. It deals in aggregates largely, but because they're expensive to transport, it's really important having quarries close to customers. It's a major advantage. It's the number one operator in 75% of its markets. It plans to grow further by going to higher margin aggregates and by making selective acquisitions. That was one new buy that we're excited about in the US.

Outside of the US, most people will know about those Baltic states. Particularly, Estonia and how much they've adopted the internet. I think internet penetration is about the higher in the world in Estonia. 93%. There's a new holding we've taken in Baltic classifieds. It's an online classifieds business which is based out of Lithuania and Estonia. It's a company that's held in other Baillie Gifford portfolios and a recent visit to Lithuania we met the management team and affirmed our confidence in its prospects. We think it's got a really strong competitive advantage and the potential to grow into many other markets. That gives you a flavour of a couple of new purchases that have come into the portfolio recently.

**In previous commentaries you've mentioned that you don't believe that tariffs will stop the long-term evolution of AI. Be good to hear how that view is reflected in the portfolio and any examples of companies that you hold that are linked to that theme.**

Yes, I mean, it's funny with a bit of perspective and a bit of time. It's almost laughable when you think about how many column inches were taken up discussing tariffs in the first half of the year when really, the elephant in the room is the AI revolution and how that will disrupt our lives or economies or companies. That's typical for what the market does. It overly focuses on the short-term stuff. I'm not saying there wasn't risks involved and so forth. We did think about the tariffs, but I think it was overdone. Much talked about, as you know, but thinking of the new AI paradigm which is the best way to describe it, we can think about two seams if you like, which we're mining. Which standout and we've got exposure to across the fund.

Firstly, it's about the enablement of the AI infrastructure. It's the networks, the data providers. The security that helps form the new stack that can provide the AI to deliver it. We will own names that are exposed or can benefit from this. It's much more directly correlated to the likes of TSMC, which is one of the biggest holdings in the fund. It's a chip manufacturer based in Taiwan. The biggest chip manufacturer in the world. You've got Nvidia, which everyone knows. The chip designer. You've got Cloudflare internet security business. These are really the picks and shovels of the AI revolution. These are big holdings in the fund because these stand to benefit hugely from the AI revolution. I think perhaps slightly more interestingly and where there's more fertile hunting ground for active management is in what you might call the application layer.

It's about those businesses that can turn frontier models of services into real services for consumers and enterprises. Almost every company we're talking to is talking about how they're using AI and how they're embedding it into their operations. Whether it's food delivery, the likes of DoorDash in the US or Spotify in Europe, Sweden. Creating bespoke playlists based on what you're listening to. It's really clever what they can do. I think the companies that are best placed to thrive, it's not simply those with capital, it's the ones with ambition, adaptability, and quite often, a founder-led urgency to really grasp this opportunity. The guy at Shopify, Tobi Lutke's his name. It's Shopify, which is helping merchants with the backend of their retail websites, etcetera.

Shopify's a great business. One of the big holdings in the company*(sic)*, he drove a decision to abandon delivery operations which used to be quite a big part of the business and redeploy the organisation full-scale towards using AI in all that they do. The market really didn't like it when he announced that. It was a near-term big hit to earnings. We thought it was great because we thought it was exactly what you should be doing.

**You took a long-term view.**

Yes. The market doesn't like it. It's that willingness to pivot, to stop being the best in the implementation of the old paradigm of how the economy works and commit fully to the new paradigm. That's probably what distinguishes the long-term winners.

**On the theme of AI, Nvidia remains in your top ten, I'm just curious to hear what your outlook is for the microchip manufacturer. Do you have any concerns that the stock's looking expensive? It's near an all-time high.**

It's been phenomenal what Nvidia's done and I think we always have concerns by the pace of the growth. However, the latest results just really underline the strength and the persistence of this AI demand. The company just continues to post exceptional growth. Revenues were up 56% in the last year and supply is still lagging the insatiable demand for compute power. There was a little bit of a concern about the export restrictions to constraining sales to China. That was something that was concerning. Actually, global demand has been more than offsetting this. Nvidia's got a huge backlog, even accounting for China. We actually had trimmed our holding earlier in the year. Partly on concerns about China, partly on concerns about the competition within inferencing in chips, which we felt there was more competition there for them.

The combination of just the rising AI capability and the huge demand for infrastructure, this really surpassed what we'd thought. Nvidia's got this unmatched ecosystem for chip development and design. In actual fact, it strengthened our conviction in the long-term opportunities. Even taking into account that valuation. We added to that again and it's a key holding in the portfolio.

**You've spoken about new avenues of growth being created by regional champions. Just be good to understand a bit more about this and any examples that you have within the portfolio.**

Obviously, a lot of focus on AI, but as we were talking about at the beginning of the chat, there's a lot going on in the rest of the world. There's more excitement about what's happening in some parts of the world than there has been for quite some time. We're definitely plugged into that. Focusing on local champions, which maybe does get you away from some of the trade uncertainty that's there. [marker 20:00] Companies that can really succeed in their own markets. We've got a really deep regional expertise. Been looking at these markets for a long time. We know them extremely well. I'll just give you two examples. Japan is fascinating at the moment.

For those people who've been looking at Japan from an investment point of view, we've been mired in deflation for so long and there's been so many predictions that have been wrong about exiting deflation, but we have now exited deflation. Inflation is positive. Growth is positive. You see interest rates move back to more normal levels. There's definitely something going on there. We're tapping into that. An example of a company that can do that is Keyence. This is a Japanese company that makes factory automation and inspection stuff. It does sensors and laser markers. Things that can be used with AI to give you a lot more precision in lots of things. They've got a lot of expertise in the Japanese robotics industry, which is probably the best in the world.

As well as they've got a good story going within that company, they can really do well if Japan Inc does well as that nominal growth in Japan comes through. That's one that we really like. Another one and we talked about the growth of intra-EM trade. That's been quite a strong factor that's come through over the last number of years. Intra-EM growth is strong and one company is Meituan. It's a Chinese digital shopping platform. It's the biggest online food delivery company. I love this story. One of our analysts was over there in China very recently. He arrived there and he had quite bag jetlag. He ordered on Meituan, one of these melatonin drinks and it came by drone and it came within 15 minutes of his order. The stuff they're doing is really, really impressive.

They're linking up not just food delivery, but they can door instore dining. They can do travel. They door mobility. Groceries. Lots of things and they're expanding into the UAE, into Brazil, into India.

**Quite futuristic stuff by the sounds of things.**

It's not all happening in the US. It's not all about the US innovation. Fantastic as some of the companies in the US are and they do lead in most areas, but there are other areas of the world, where there are really exciting things happening too.

**I wanted to talk to you about a non-US company, which was Babcock International. The fund has benefited form a turnaround there. Just be good to hear what you suspect could be in store for the defence contractor and, also, there was a recent wobble in the share price as investors took profits after what's been a stellar year. Were you tempted to take profits?**

You're right, Babcock has had a stellar year. We got interested in it and bought it as a turnaround story. You've really seen that playout. The company has re-entered the FTSE for the first time in seven years and very strong results. In June, double-digit organic revenue growth and upgraded guidance. The outlook is good. It's definitely partly been the rhetoric around increased defence spending has been part of that. Maybe some shorter-term players in the market may have been involved as playing the increase in defence and then they think they've had their gains from that and they're out. For us, what was really interesting was the UK's defence spending review which came out not that long ago.

It leaned far more towards nuclear than I think everyone had anticipated. Babcock's a key player in nuclear. That really played to this. Given the continued threat from Russia, in Europe we do see increased defence spending as a key consideration. We think the outlook for Babcock is still very good from here.

**You also initiated a position in Moonpig earlier this year. It would be good if you could talk us through the rationale behind that investment decision?**

It's quite a contrast to Babcock. Moonpig is quite sensitive to consumer spending in the UK. There had been some concerns. The UK economy hasn't been great and consumer spending's been a bit sluggish. That's been a bit of a concern. We maybe have some expectations it can do a bit better as time moves on, but actually, Moonpig's had a really resilient core market with a very large loyal customer base. We love sending cards in the UK. It's such an ingrained part of our culture, but it is moving online. The only market for cards is growing pretty fast and Moonpig is the dominant position. It's got about 70% market share within online cards in the UK. It's able to add things. Balloons, add different things to that to increase the customer spend per transaction.

We think there's plenty of scope for it to leverage the scale it's already got. Particularly as it's quite adept at using all the data it collects to tailer its product offering. Again, the theme of which companies can actually use the AI to increase their potential revenues.

**Just be good to hear if you could highlight any companies that you think are flying under the radar, where you're particularly excited about the prospects for growth over the next decade?**

Our fund is over 200 equity holdings. It's like choosing your favourite child, but there are plenty of holdings to get excited about. Perhaps one company the audience wouldn't be so aware of is Cloudflare, which I mentioned earlier. Cloudflare really is a leading provider of internet security and infrastructure. It's all about protecting and accelerating websites and applications through its global cloud network. All about the safer and faster internet. We've seen more and more cyber attacks in the media. The likes of M&S, Jaguar Land Rover. This is crucial for companies to invest in cybersecurity to counter such attacks.

Cloudflare's customers range from small businesses, some of the world's largest companies. Some of the government, public sector organisations. Its growth is being driven by this need or demand for cybersecurity protection and the big shift to cloud computing, which has obviously been massive. I think it now secures roughly a fifth of the internet. Although you maybe haven't heard the name, it's not that familiar, it's actually very significant in our lives. We think the opportunity for Cloudflare from here is very, very good.  If they could keep executing it, a very exciting stock.  That's the one I'm going to highlight.

**Finally, it's been an eventful year to say the least, what are your main takeaways so far in 2025?**

I think probably, the clearest takeaway is that it's at times when the market is making a lot of noise about short-term worries such as tariffs. I say short-term. You could definitely say they might not be short-term, but it was really about the short-term adjustment that if the market's making a lot of noise about things like that, then that's the time when, as investment managers, we need to focus even more single-mindedly on the long-term opportunities in front of us. Often, it's when the pricing makes these things look much more attractive. I think it's easy to say that, but it's actually very hard to do it well. Many managers will say they're long-term, but it's really difficult when push comes to shove to do that.

Sitting on your hands and doing nothing is actually very hard to do when there's a lot of noise and markets are moving and clients are asking what are you doing about this? We're institutionally quite well setup. I think our greatest institutional value is that during such volatility, we've got a very patient mindset and that's really part of our culture. The probability of making mistakes through a market panic is higher. I think it's maintaining that long-term perspective that's served us really well through previous crises. The Managed Fund was launched in 1987, just before the stock market crash in that year. It's seen a fair few crises over the year. They've all been successfully weathered. I think the key to that has been that mindset. It's been the diversification and the balance within all the different parts of the portfolio, including bonds playing their part at different times.

**Thanks, Steven. We've had a few questions coming in on the Q&A. The first question is linked to your last answer because someone has asked how you took advantage of the volatility that was created after Donald Trump's tariff announcements in April. Did you take advantage of share price weakness to initiate or even top up any positions?**

We had reduced our overall equity weight in [marker 30:00] March, given some of the uncertainty. We increased our cash allocation up to 5% and we felt it was prudent to retain some firepower for when there was a bit more certainty. Following the initial round of tariffs, we took some time to understand what impact that would have on our companies and day-to-day interactions. Didn't really make any kneejerk reactions to that. Felt that we were pretty well positioned with the companies that we held. We did add to the portfolio, did make some purchases. One of which was Forum Print, which is a UK listed company where we just felt the valuation was-, the weakness was overdone.

It was a company we'd been looking at for quite some time and we felt that the market move was too much and it provided a really good entry opportunity and there are other examples of that in the portfolio as well. We did add a little bit, having raised a bit of cash just before the Liberation Day stuff, but it wasn't really huge moves.

**We have a question that's come in on the fund's fixed income allocation. Someone from the audience would like to know, "What is the duration and how much of the fund is hedged to sterling?"**

The fund is not hedged to sterling. We are globally managed fund where were finding the best ideas. I think we have about 25%, 30% of the fund is in sterling assets. We know a lot of our clients are based in sterling, but for us, we're investing in global companies. Even if you invest in UK listed companies, much of their revenue comes from overseas. There's a natural hedging that comes through from that. The currency risk is really well diversified across the portfolio. Actually, it's very hard to know what the exact currency exposure is in the portfolio. On the bonds, we have a duration of around about 6.5 on our bond fund. It's fairly close to where a typical bond index would be, in terms of the government bonds and corporate bonds.

We've been a little bit longer duration than that index of late, thinking that yields had topped out and were coming down. That's been working quite nicely. We have enough duration in there to work as a good hedge. If there was to be a significant market selloff, it would be very likely that bonds would rally strongly. Yields would fall, interest rate expectations would move to more cuts and our bonds would do well in that situation.

**Another question has come in on Amazon, which is in your top ten. They want to know your outlook for the stock.**

Amazon is currently our largest holding. Very positive. One of our longest standing holdings as well. We still really like it. I think people don't always realise that it's not just about the retail business. It's the two largest segments that are the key parts of the investment case. Amazon Web Services, that provides the cloud computing infrastructure that allows lots of businesses to store data, run applications, access computing power over the internet. The likes of Netflix will use Amazon Web Services. We think there's still significant opportunities for the web services part to get more business using generative AI and providing essential tools infrastructure to its customers.

On the retail side, Amazon just keeps doing the investment in the logistics and the AI to help it do the whole retail job, including the logistics more efficiently than anybody else. It makes those investments and continues to have a really good runway for growth ahead of it. Yes, we still really like it.

**Another question has come in asking, “Is there an equivalent investment trust to the Managed Fund, which is an open-ended strategy?”**

No, there’s not. We like to think about it as the best of Baillie Gifford’s stock picking right across all the different regional teams and through the fixed income team. It’s unique really, within Baillie Gifford, in terms of what it delivers. It’s a very diversified portfolio and lots of diversification. That’s been a key strength. Although we evolve what we do, it’s really been unchanged since 1987 in terms of its broad structure. We have other investment trusts which would typically not have the same weighting in bonds. The likes of Scottish Mortgage or Monks which we manage, they might have a little bit of bond allocation. More concentrated portfolios and less in the bond side.

They’d be a little but different, although many of the holdings would be common it’s probably fair to say, but definitely more concentrated portfolios and more growthy than the Managed Fund. The Managed Fund wants the best growth ideas, but also, balance it with lots of other types of growth.

**Another question that’s come in is about your sell discipline. “How do you take the decision to sell out of one of the investments?”**

This is something that we’re always thinking about and it’s a really important part of the fund management job. We start by asking, are the fundamentals of the investment case intact when we have a hypothesis about a particular stock and how we think it will perform over the next five years. We will have milestones to that investment case and it’s very important to keep ourselves honest and keep assessing how the stock is doing against those milestones and assess where’s it being let down? These are difficult decisions, but we’re constantly looking at them. Look at the culture. Is the culture still strong? Is the competitive moat that this company has still as good or are competitors encroaching on that? Anything that erodes those pillars, then our conviction will start to wain on a particular stock.

Of course, we’re looking at the valuation at the same time to assess that, but it’s probably more thinking about those fundamental factors that we’re going to thinking about. Just an example. We sold James Hardie Industries, a cement manufacturer. We sold it quite recently. They acquired a company recently, Azek who are known for decking products. We just didn’t like the acquisition. Given the cyclical weakness in the US market and the housing market, we thought the acquisition price was too high. Created too much debt for James Hardie and just weren’t convinced about the logic in the synergies between it. We ended up selling it. Each investment case has got its own factors as to what factor dominates in the decision, but the simple answer is, if we lose conviction in the upside case, then we will reduce or sell in the holding.

**We have a question on whether you think that we're in an IA bubble and whether you're concerned about valuations of AI companies or even AI beneficiaries?**

This is certainly the topic de jour, isn't it. I think we are absolutely convinced that there's an AI revolution going on that will fundamentally change how economies work and how companies work and how society operates. There's no bubble around that. It's absolutely significant. Knowing who exactly will benefit from that is the multimillion-dollar question. We've seen a huge increase in valuations in some of these companies, but as I mentioned earlier when we talked about Nvidia. It's not hard to justify them based on currency earnings. The earnings outlook has been so good for some of these companies, that you can justify. I'm not saying there's not some worrying aspects of this in some kind of bubble-like features of it. You'll never know until after the bubble has burst.

I think that's probably why I was talking earlier about we have holdings in some of the most directly linked stocks to the AI bubble. Nvidia and TSMC of this world. We do think the opportunities are great, but we have some concerns as well, about the valuations and how much they've gone up. That's why it's looking to companies that maybe, the market hasn't got onto yet, that are able to use AI to revolutionise their business or get a great new idea they can bring [marker 40:00] to fruition through AI and playing that side of things. I think for the managed fund, it's about having exposure to the AI ecosystem, but also, having that balance in terms of other regions and other things going on, that are also interesting and can still provide growth that's not necessarily directly AI related.

I think that definitely gives us some comfort within the managed fund, that we've got some exposure, but clients can have confidence that there's breadth and depth within the portfolio, which helps the resilience.

**We have another question on the fund's fixed income allocation. Someone would like to know, "What role does it play?"**

The bonds really are there for balance in the portfolio. We know that the way equities move and bonds move, it's often different. Not always the case, but usually, overtime, bonds will move differently from equities. That correlation between them is not that high. When the equities fall and they do from time-to-time. Obviously, things happen that we can't predict, then the hope is that the bonds hold up better. They're usually very liquid and so, we're able to then deploy some of the money from bonds into equities which have fallen significantly. That's the thing and we know from our experience over the years, that the bonds have improved the risk-adjusted returns of the Managed Fund.

They have helped to dampen down some of the volatility and we know that's what people are wanting. It's also a case that we're very active as bond investors. We're active bond pickers as well. It's by no means an index type bond allocation, we're very much trying to find the best bond stories that we can find and best bond investments that we can find that still fulfil that role of providing the balance and diversification.

**We have another question which I think is drawing on your experience being ex Bank of England and touching on fixed income to an extent. "What's your outlook for interest rates and inflation in the UK?"**

It's an interesting one. It's a while since I've been at the Bank of England. We used to agonise over inflation. Still do agonise about inflation, but think about it. It's been an interesting few years though on inflation. I have a slightly different view to many colleagues and I'm actually not very worried about inflation. We've clearly seen a big jump and it's been coming down. It's been a little bit stickier than we would have liked and the UK's probably one of the stickier places for inflation. It does link into the AI theme. I think AI is hugely disinflationary. I think we saw something akin to it when you saw the growth of the internet or the advent of the internet with widespread adoption and China joining the global trading system.

Those two things were very, very disinflationary and it moved us from a high inflation rate era to a low inflation rate era. I think the AI disinflation will bring something similar. For me, that makes me more relaxed on inflation than maybe some other people. I think we'll just see that playout gradually over time in the numbers. That would lead me to think that would allow more rate cuts to come through and that includes in the UK. Maybe get one or two priced over the next six to 12 months. I think we could maybe do a little bit more than that in UK. The once hesitation I have in terms of the outlook for bonds and UK gilts in particular. That inflation will be a good thing for bonds obviously, but there are concerns on the fiscal side.

Debt is higher. You've seen the market begin to get more concerned about the level of debt. We'll see what happens in the budget and the UK's not the worst place in the world. France has obviously got more problems than we have, but it's a concern, the amount of government debt that has to be issued. That's probably why you've seen longer dated bond yields or gilt yields. They've been rising at the same time as the shorter-dated ones have been falling. I think that's a trade that we could see continuing for some time. Overall, not that worried about inflation. I think rates could come down, but a residual concern about where long-dated yields might be in quite a few markets.

**Thank you. That's all we have time for today. Thank you very much, Steven, for your time and for your insights. Thank you everyone for watching and for your questions. We do have more sessions like this coming up, so keep an eye out for those if you found today useful. Thanks, and good bye.**

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