

# BAILLIE GIFFORD EUROPEAN GROWTH TRUST AGM

Stephen Paice, investment manager of the Baillie Gifford European Growth Trust plc, gives an update on investment philosophy, performance, portfolio positioning and outlook.

*The value of your investment and any income from it is not guaranteed and may go down as well as up and as a result your capital may be at risk.*

*This film was produced and approved in January 2021 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.*

For a Key Information Document for the Baillie Gifford European Growth Trust plc, please visit our website at [www.bailliegifford.com](http://www.bailliegifford.com)

**Stephen Paice:** For obvious reasons, the Baillie Gifford European Growth Trust Annual General Meeting unfortunately has to be held behind closed doors this year, so we HAVE decided to record this video to go alongside the information that you'll find on the company's website. Hopefully next year we will be able to do something slightly more interactive, however today I will give a reminder of what we are trying to achieve and some thoughts on the positioning of the portfolio.

## An example of our philosophy – The European Fund

We have included information for the Baillie Gifford European Fund as an example of our approach. Please note that this is not a guide to future returns of the Baillie Gifford European Growth Trust.



Source: Baillie Gifford & Co, Factset, Worldscope. As at 30 June 2020. Based on 5-year median total returns in sterling and 5-year EPS growth of Europe ex UK stocks.

Source: StatPro. Sterling. 31 December 2001 to 30 September 2020. Absolute returns of top and bottom 5 returning stocks. Some stocks may not have been held for the whole period. \*No longer held in the European Equities Strategy.



## Our Philosophy

Through the Trust, what we are offering is a concentrated portfolio of 30 to 60 of what we think are the most innovative and entrepreneurial growth companies in Europe. These companies, which can be publicly quoted or unquoted, have exposure to large and growing markets, they more often than not have unique corporate cultures that translate into strong competitive positions, they have founders or families or other inside shareholders whom we trust, and finally, the potential to at least double in value over a five-year period. For us, this has been a very simple yet effective framework that we have used for many years to find and invest in the best of what Europe has to offer.

Our philosophy has three pillars which we think will help us find and invest in these outliers. Firstly, it is based on being long term. The value we add is by analysing businesses over 5-10 years, not trying to second guess what's going to happen to the economy or stock markets over the next year or two; secondly we believe that share prices are driven by earnings and cashflow growth over long periods of time, so we focus on what a business might look like in the future, not what it looks like today, and finally we believe in the asymmetry of markets and that there are a very small number of companies that will ultimately be responsible for most of the value creation of both markets and in our portfolio. These are the outliers that will rise in value, hopefully not just by 2x but 5x, 10x or even more over a 5-year period. So we therefore, again, focus on what might go right rather than what might go wrong.

Turning to the portfolio, in the year to September, the Trust's share price rose by more than 54 per cent.

## Performance to 30 September 2020

### Cumulative Returns

	30/09/19- 30/09/20	30/09/19- 30/11/19	30/11/19- 30/09/20
European Growth Trust NAV (%)	37.5	0.8	36.4
European Growth Trust Share Price (%)	54.2	6.9	44.2
FTSE Europe ex UK (%)	-0.3	-0.1	-0.2

Source: Baillie Gifford & Co, FTSE, total return in sterling terms.

### Stock Level Attribution

Top and Bottom Five Absolute Stock Contributors  
10 Months to 30 September 2020

Name	Trust Weight (Average) %	Contribution %
Zalando	4.3	4.3
Bechtle	4.9	3.1
Adyen	2.7	3.0
Delivery Hero	3.0	3.0
Spotify	3.7	2.8
Ryanair	3.4	-1.1
Tenaris	0.9	-0.6
Legrand	1.2	-0.5
U-Blox	0.7	-0.4
Hexpol	1.9	-0.4

Source: StaffPro, sterling.  
Some stocks were only held for part of the period.

### Stock Level Attribution

Top and Bottom Five Absolute Contributors  
12 Months to 30 September 2020

Name	Trust Weight (Average) %	Contribution %
Zalando	3.6	4.3
Bechtle	4.1	3.1
Adyen	2.3	3.0
Delivery Hero	2.5	3.0
Spotify	3.1	2.8
Nokia	0.4	-1.5
Tenaris	0.7	-0.6
Legrand	1.0	-0.5
U-Blox	0.6	-0.4
Hexpol	1.6	-0.4

This was driven primarily by the net asset value growing by more than 34 per cent but also a narrowing of the discount to that net asset value. This compares to FTSE Europe ex UK index which was virtually flat. One year is of course far too short a time period to differentiate between skill and luck so we would kindly ask you to judge us over at least a 5-year period, which is the same timeframe we use to judge the progress of the companies we invest in. Nevertheless, we are very pleased with the progress we've made so far.

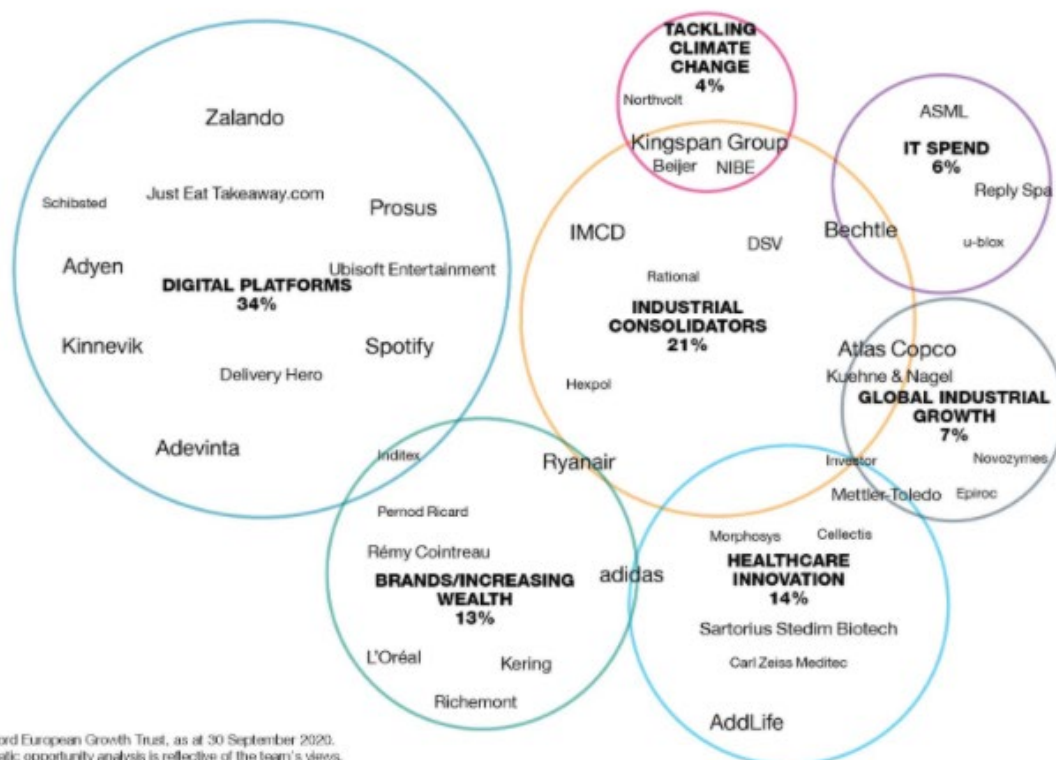


A year ago we could never have predicted a global pandemic – despite their recurring nature – nor the rapid fall then recovery in equity markets. The companies we invest in though are not only financially strong and adaptable, but also exposed to secular trends many of which continued to grow, and in some cases accelerate, throughout the year. The shift to online consumerism benefitted companies like Zalando (which is Europe’s largest online fashion marketplace), Spotify, Adyen (which is a digital payment processor), and Delivery Hero (which delivers takeaway food and groceries). Corporates are also spending more money to adapt to this new digital world which benefited IT consultants and managers like Bechtle and Reply. And healthcare spend, particularly in Covid-19 related areas, drove significant growth at medical supply distributor, Addlife, and lab equipment provider Sartorius Stedim. For some of these companies the pandemic has provided a temporary boost and pull through of demand so we have reflected that by reducing some of our investments in areas like healthcare and IT services. For most of them though, we think the secular trends combined with visionary management teams will provide opportunities over much longer periods time periods to create value.

**Portfolio positioning**

Looking to the future then, while the shape of our portfolio is driven by bottom-up stock picking, there are some broader themes that we are thinking a lot about.

**Our Portfolio – Clusters of Excellence**



Baillie Gifford European Growth Trust, as at 30 September 2020. This thematic opportunity analysis is reflective of the team’s views. Figures may not sum due to rounding. Excludes cash. Stock name size is representative of holding size.

The first is the emergence of digital platforms in Europe. I’ve mentioned some of these already – companies like Zalando, Spotify, Adyen – but there are others like Schibsted and Adevinta which own one of the



world's largest collection of online classifieds. These are marketplaces for buyers and sellers of homes, cars and other second-hand merchandise. These are some of the European companies that through focus and ambition should benefit from increasing digital scale. We think they are getting more powerful as they get bigger, a phenomenon that has created so much value for US and Chinese companies over the years; and as investors in Europe, what is exciting is that that we think there's now much more ambition and support to create more of these businesses. We are as a region I think playing catch up but there are going to be lots more of these companies involved in creating new markets, or redistributing profits away from the old economy.

The second, somewhat related, point is that we also believe that the unquoted space in Europe is developing very quickly and is where we are now more likely to get access to some of these disruptive companies. We recently made our first private investment into a Swedish company called Northvolt, which is aiming to build the world's greenest batteries for EVs, but also other industrial applications like storage, but we would be frankly shocked if we didn't make more investments here in this space based on the quality of the companies we've spoken to recently. And I think this is where Baillie Gifford's size and reputation also provides access that as an individual trust, we would probably not enjoy. This effectively means that we can invest in the largest and most exclusive funding rounds, while at the same time being able to access smaller opportunities and still have those matters to the portfolio. We strongly believe that being able to invest in both private and public companies gives us much greater insight. We are very excited to see how we can take advantage of this over the coming years.

The third and final point is that while there is a lot going on with European tech and private companies, there are still lots of opportunities for industrials and healthcare companies that don't really get as much attention. Whether it's in logistics, chemicals distribution, energy efficient heating, or rubber compounding, we have investments in industry leaders with proven capital allocation skills that drive the consolidation of these fragmented industries. We also think that the recent success and involvement of European companies in finding a vaccine for the Covid-19 virus highlights a small but overlooked area of European excellence - healthcare companies that are both innovative and help to reduce the costs of the healthcare system.

## **Outlook**

In terms of outlook, in the short term we really don't know what the effects of the pandemic will be, or where investor emotion or sentiment will drive stock markets. We will continue to deal with this uncertainty and volatility by investing in those companies that we believe are relatively immune to macroeconomic and other exogenous shocks, but more importantly, those which have the potential to grow profitably and create significant value for our shareholders. We will of course go through periods of hopefully short-term underperformance, but we are not going to change our investment philosophy on the back of this. When thinking about the transition Europe is going through and the potential outliers that will emerge from both public and private markets, it is hard not to be optimistic and excited about what European companies may be able to create. This is what we are going to focus our efforts on and how best to exploit the opportunities right in front of us.

## **Annual Past Performance to 30 September Each Year (net%)**



	2016	2017	2018	2019	2020
Baillie Gifford European Growth Trust plc	9.8	32.2	1.2	-7.6	54.2
FTSE All World Europe Ex UK	32.3	15.8	13.9	8.0	6.9

Source: FE, share price, total return. Sterling.

Past performance is not a guide to future results.

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*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.*

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*All information is sourced from Baillie Gifford & Co Limited and is current unless otherwise stated.*

