

The Schiehallion Fund

Q1 investment update

April 2025

Investment manager Alexander Nicolier and investment specialist Gustav Venter give an update on the The Schiehallion Fund.

Your capital is at risk. Past performance is not a guide to future returns.

Gustav Venter (GV): Welcome to this update for the Schiehallion Fund. I'm Gustav Venter, an investment specialist at Baillie Gifford, and I'm delighted to be joined today by Alexander Nicolier, an investment manager within our Private Companies team. Now, just as a brief reminder, the Schiehallion Fund seeks to generate capital growth for shareholders through making long-term minority investments in private growth businesses, businesses which the fund believes to have transformational growth potential.

So let us turn to some of the more recent developments within the fund. Alex, first of all, welcome. Second of all, certainly no shortage of news flow at the moment. A lot of that economic and geopolitical in nature, with quite a negative slant to be fair. So, as an opening salvo, to what degree should we be concerned by this?

Alexander Nicolier (AN): Thanks, Gustav. Happy to be here. And you're totally right. There's never a shortage of news flows in the market, enough to feed the arguments of both the optimists and the pessimists. Fortunately, our job is not to obsess over these headlines, but rather to be students of long-term change, of value creation, and to understand what truly matters in the pursuit of finding exceptional growth private companies.

I'll give you an example of the type of things that we do care about, those that make us stop and think. And that's that, for example, last year in Europe, close to \$54 billion of VC investments went into this ecosystem. And that was despite being a relatively quiet one for this market. That is four times the amount of capital that was deployed a decade ago, according to the data provider Dealroom.

This transformation, this evolution of the market is taking place despite the headlines that are dominating the market, like the armed conflicts, stubborn inflation, a rift in the political landscape and trade landscape as well. And what's important is that it's true that it's going to take a while until

that \$50 billion, or so, translates into businesses of the size and the scale that we as private equity growth investors come in. But the important part is that short-term uncertainty can often mask the long-term opportunity. For us as generalist investors, unconstrained by geography or sector, this can truly play to our advantage.

GV: So, it's very much about trying to look through a lot of this short-term noise. However, in saying that, one of the holdings within the fund have generated quite a lot of news flow recently, and that's the Chinese social media giant ByteDance – a lot of that tied to a potential ban or sale of TikTok in the US. So given that this is one of the largest holdings in the fund, I'd be interested to hear what you and the team are thinking about.

AN: Of course. ByteDance and TikTok are always in the news. So, it's important to take a step back and see it from a higher global context. With so much speculation, it can be helpful to go straight to the source.

We had the privilege a couple of weeks ago of hosting Julie Gao, ByteDance's CFO, here in our offices in Edinburgh. What we heard from her gave us more conviction in the thesis. Fundamentally, ByteDance is a highly profitable business, with top lines similar to that of its US peer Meta, but it's growing much faster. Now, part of the appeal, the thesis, is its domestic business in China where Douyin is growing phenomenally well and so is Taotiao, a news app, and they're continuing to gain market share in the online advertising space and generating substantial cash flows as well. The international aspect with TikTok is important, but we see it as merely optionality, especially with what's going to happen with the US in a couple of days. We will know more as to whether it will be sold, banned or left alone. But it is not part of the core thesis as a domestic part is.

The last thing I'll say about TikTok and ByteDance is that, with a reach of nearly 4 billion people or half the planet, it's not only a gigantic communications platform but it is evolving into some form of online conglomerate. Internally, we're debating whether it will look more like Tencent with substantial revenues coming out of gaming and music or more like Amazon with ecommerce, because this part of the business is growing really rapidly, and it could become a growth pillar for the future.

GV: So, certainly, still a large growth runway ahead for ByteDance. However, at the other end of the spectrum, I think it's also worth pointing out that in the pursuit of these large growth opportunities, not all investment cases will necessarily work out. And one example within the fund more recently is of course Northvolt, the Swedish electric vehicle battery maker. Now, Northvolt recently filed for bankruptcy in Sweden. So I'd be interested to hear what has gone wrong with this one, and are there potentially any lessons that we can take from this example?

AN: Of course. Northvolt was Europe's best chance at creating an independent and sustainable battery industry, one that isn't beholden to Chinese or South Korean companies. Despite significant investments by investors such as ourselves, governments, and European car manufacturers, the company ultimately failed to live up to its potential.

Upon reflection, some of the lessons are that maybe we were too enamoured with the idea that a business like Northvolt needed to exist. We also backed a management team that failed to ramp up production and to deliver the sale qualities that were needed for its customers. Another potential lesson is that we mistook being a first mover in Europe with being a laggard in a highly competitive and global context. Of course, the bankruptcy is a sad event for Europe, for investors, and for fund shareholders alike. But as growth equity investors, we mustn't let a single setback change our long-term approach or our philosophy, nor our pursuit for asymmetric returns within the private markets.

GV: Well, let's then turn to some opportunities and recent fund activity. By recent public estimates, the Schiehallion Fund now holds six of the ten largest private growth equity businesses in the world, and these comprise the likes of SpaceX, and of course the aforementioned Bytance. There's also data intelligence company Databricks, as well as the US fintechs Stripe and Chime. Now recently a sixth name has been added to this cohort, and that's the UK neobank Revolut, an investment which we made during the most recent quarter. So, what was the team seeing with this one?

AN: What caught our attention with Revolut is its scale, but also its ambition. This is a neobank that has onboarded close to 50 million people, and about half of them use it on a monthly basis. And many of them use many of its products, which include payments, investments, FX and budgeting tools among many, many more. When we put all of this together, we believe that we're seeing a giant in the making, one of a global nature at that, and that could be Revolut.

If this thesis holds true, then at that scale, we should be seeing enormous operational leverage, thanks in part to the bundling of its many products into one app. Because at the end of the day, how many fintech apps do we want to have in our phones when maybe just one will suffice? And, if we use it on a daily basis, if our friends and family members use it on a daily basis, then we should be seeing enormous network effects at play that could make it very hard to dislodge.

During our due diligence, we uncovered that its culture is entirely obsessed with performance. And it reminds us of the earlier days of Tesla, SpaceX, and perhaps Netflix, where we know that talent density is extremely high. And we think that maybe it's part of that culture, the reason why Revolut can put out products at such a fast rate. And over time, if they continue to do this, it will compound into a big distance, a big gap between what Revolut will offer and what its competitors will be able to do.

GV: Very revealing indeed. And perhaps then, just in closing, beyond the recent investment in Revolut are there perhaps any other names or areas of the fund where you and the team are particularly optimistic looking forward?

AN: Firstly, at a high level, we're very excited by the execution of our fund holdings. By weighted capital, the top line, they're growing at approximately 30%. When we look at the top 10, that's much higher. That's over 40%. We're also very optimistic about the high margins and the cash runways at the fund level. If we look at the private holdings, two-thirds of them have cash runways of more than four years.

Now, if I were to single out one investment that I'm excited about, it would have to be Vinted. We made an investment in Vinted late last year. And for those of you that don't know what Vinted is, this is the world's largest second-hand marketplace, based in Lithuania. What impressed me is that it's not only profitable despite the heavy investments into its logistics capabilities, but the people that are using it, they're not just selling their clothes and items, they're having a lot of fun doing so and it's becoming a bit of their hobby.

Now, at first, I was a bit sceptical, maybe Vinted was a bit too niche and there was a bit of a cultural divide between those that use it and those that don't, but the numbers just keep proving me wrong. And as a personal anecdote, I downloaded the app recently and I bought a lot of baby products for my soon-to-be-born child and ended up saving hundreds of pounds doing so. So, I have to say I'm fully converted.

GV: So certainly, a lot of reasons for optimism on multiple fronts. Alex, thank you very much for your insights today.

AN: Thank you for having me.

GV: We've touched on a few things, the potential trappings of short-term news flow, we've looked at some recent fund activity as an output of some of the opportunities that Alex and the team are currently seeing. And we've also touched on some broader points of optimism across the fund more generally. So, thank you very much for watching, and we certainly hope to see you again next time.

The Schiehallion Fund Limited**Annual past performance to 31 March each year (% net)**

	2021	2022	2023	2024	2025
The Schiehallion Fund	26.9	7.1	-60.6	16.6	11.2
Net Asset Value	32.1	5.1	-20.1	4.6	6.6

Source: Morningstar. Total return in sterling. Ordinary shares. Past performance is not a guide for future returns.

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