

POSITIVE CHANGE Q1 INVESTMENT UPDATE

Investment Specialist Diana Philip and Senior Impact Analyst Apricot Wilson give an update on the Positive Change Strategy covering Q1 2023.

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

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

Diana Philip (DP): Hello, everybody, and welcome to the Positive Change Update. I'm Diana Philip, I'm an Investment Specialist on Positive Change, and I'm joined by Apricot Wilson, one of our Senior Impact Analysts.

As a reminder, Positive Change has a dual objective. We invest for impact, and we invest in global equities. As part of our dual objectives, we are looking to generate attractive long-term financial returns, but equally as important, to contribute towards a more sustainable and inclusive world.

Impact and investment, research and analysis, are therefore equally as important parts of our investment process and our investment philosophy. The team, therefore, comprises both investment and impact experts, and we recently welcomed Apricot to the firm, to help support our efforts in the impact space in particular.

Perhaps, therefore, the best place to start, Apricot, is to hear a little bit more about what brought you to Baillie Gifford, what you were doing before, and what you hope to achieve here.

Apricot Wilson (AW): Yes, absolutely. So, funnily enough, I started my career just down the road from here, at Aberdeen Asset Management. When I was completing the Graduate Programme, I became very interested in impact investing, and the power of capital to bring about change.

And this led me to join a Luxembourg-based investment vehicle, the Luxembourg Microfinance and Development Fund, which looks at investing in smaller, what we call Tier Two and Tier Three microfinance institutions, in frontier-market economies.

We often found the lower down the Human Development Index, the harder it was for such institutions to access capital, and we tried to focus on these areas. Now, these institutions have a huge impact on people's everyday life in these economies, but it's very difficult to scale this



impact.

When you consider that one in ten people in the world today still live on less than \$1.90, and can't meet their most basic needs, I think we need some scalable solutions. And this is what's led me to Baillie Gifford. The Positive Change Team looks at four impact themes, including base-of-the-pyramid investments, and has worked with the Bank Rakyat and with Safaricom for many years.

DP: Apricot, sorry to interrupt you. Maybe just explain what base of the pyramid means, for some listeners who may not have heard that term before.

AW: Yes. So, base of the pyramid refers to people who are living in extreme poverty. There are various definitions of this, but I think the World Bank is currently using \$1.90 as an income threshold. So, these people will predominantly be based in lower-income economies.

Of course, at this income threshold, it's very difficult for you to meet your basic needs, such as sufficient food and nutrition and housing needs. And these groups have been particularly difficult to access through conventional financing, given their very limited resources.

So, I find it a particularly interesting area to work in. What's also interesting about this area, is that there's a lot of intersectionality between working on poverty alleviation and between other themes.

For instance, climate change, of course, impacts those living at the base of the pyramid quite profoundly, as do inequalities and whatever you can do to promote education in emerging economies.

And I'm particularly interested in this, because everyone at Baillie Gifford, on the Positive Change side of things, is a generalist, and I think working as a generalist also enables you to take diverse approaches to these very complex development themes.

I'm also very interested in the fact that Baillie Gifford is a long-term investor, because of course, change doesn't happen overnight in development. And being able to stay with and work with a company for some time, really enables you to enhance your Impact impact.

DP: Thank you. This might be a tricky question to answer because, being a generalist, I'm sure that you have an incredibly varied role, and no day is the same, but are you able to describe in any way what a typical day or week looks like for an Impact Analyst at Baillie Gifford?

AW: Indeed, you're absolutely right there. Some Fridays, you might find yourself having to do a video, but generally my days are spent mainly on idea-generation and research.

So, as I mentioned previously, I'm transitioning from being a specialist in microfinance to being a generalist. What's interesting about this, is that I'm having the chance to look at other themes.



So, I've spent quite a while upskilling and doing research on fast-moving consumer goods, and also on the climate transition.

What does research actually entail? There's a lot of desk-based research we do, but what's really exciting about being here is the access we have to experts, whether these be Company Management Teams, whether these be external experts who can help us to grapple with some really tricky questions that we come up with when we're doing investment research. But also, the expertise we have sitting on the investment floor.

I never expected to be sitting within 5m of a doctor and a civil engineer when I joined, so that's a pretty interesting aspect of research. The other thing to note is that people aren't afraid to, and I apologise for this phrase, essentially go and get their hands dirty and see how things work on the ground.

One of my colleagues was recently at a heating, ventilation, and air-conditioning fair in Atlanta, speaking to practitioners who are actually installing air-conditioning, to learn more about the industry, and I find that's a really fascinating element of the research we do.

DP: And are there any areas of research that you've conducted, so far, that have been particular highlights that you might want to share with us?

AW: Yes, absolutely. I think I've been working quite a lot on India, and I was lucky enough to go and visit India and attend a conference there. Now, it's all very well reading about India in a textbook. You'll find it's got a population of 1.4 billion, and has managed to move 415 million people out of extreme poverty in the past 15 years.

But understanding what this growth entails, how it can continue to have this growth trajectory, but sustainably, can only really be appreciated when you spend some time on the ground in India.

So, interestingly, the conference that I was attending was normally being hosted in Delhi, but has been moved to Mumbai because of the air quality in Delhi these days.

70 per cent of the 50 most polluted cities in the world are now in India, and there are some that say that the climate degradation in India is leading to 5 per cent lower growth in the country. So, clearly, the sustainability and the growth trajectory are quite a challenge to balance at the moment, and I'm interested in what more can be done about this.

What also really interested me during my trip to India was the interplay between the formal and the informal economy there. You may be staying in a relatively smart hotel, but the chances are that the linen is all washed down the road, at Dhobi Ghat, which is essentially a slum with very poor working conditions. The same goes for all the plastic recycling, which is mainly done in the Dharavi slum in Mumbai.



On a more positive note, you'll notice that a lot of the goods produced by the fast-moving consumer goods companies are sold by Kiranas, which are essentially mom-and-pop stores in India. And so, there's now a lot of impetus for the fast-moving consumer goods companies to see what they can do to support these Kiranas, these corner shops, in terms of digitalisation and in terms of store infrastructure. I think that's a really exciting area, and you only begin to get a feel for this when you're spending time on the ground in India.

DP: So it sounds, then, there's a lot of potential there to identify companies that would fall into that base-of-the-pyramid theme that you highlighted earlier. Has the trip led to any concrete investment ideas, or is it still work-in-progress at this stage?

AW: Yes, I think one of the ideas that I'm looking at, isn't so much poverty alleviation, but poverty prevention. When you consider the structure of the Indian households today, there'd be 50 million households that fit into this bottom-of-the-pyramid category, there'd be 200 million households who are considered to be middle-income, and 50 million who are considered to be affluent.

Although everyone's very interested in these 200 million middle-income consumers, what's a bit of a concern here is, actually, these households are immensely vulnerable to falling back below the poverty threshold.

Consider what may happen in the case of illness or injury or accidents or natural disasters. There's some interesting data from China, which says that 42 per cent of poverty is caused by healthcare poverty in China today, and 20 per cent is caused by natural disasters.

Unfortunately, I couldn't find an analogous statistic for India, but bear in mind that the Indian government only spends the equivalent of 1 per cent of GDP on healthcare, and the fact that it's estimated that at least 55 million households go into healthcare-induced poverty. At least 55 million people, rather, go into healthcare-induced poverty each year in India.

It gives you an idea of the magnitude of the problem. And I think what's interesting is that insurance helps to share this burden. There's also a huge variety of insurance companies you can look at in India.

You can look at the life insurers. You can look at the general insurers. You can look at the specialist insurers. And you can look at the platforms, which are doing a lot to improve access and knowledge of insurance within the country. So, I'm currently doing more research on this area, together with one of my colleagues on the investment side, who's been similarly inspired to look at this area.

DP: It'll be interesting to hear developments from that, Apricot. Are there any other areas that the team are working on at the moment, that you'd like to highlight?



AW: Yes, there's such a lot going on with the team, always. I suppose a few things I'd like to highlight from my side. Of course, I'm very interested in the theme of the emerging markets. There are often ESG challenges in these markets, as I'd highlighted earlier, but they're probably also the places where you have the most potential to address development challenges.

With this in mind, I'm planning a trip to Indonesia later on in the year, and I'm very interested in the impact of digital platforms on poverty alleviation and formalisation of small enterprises there.

But there're also, of course, challenges related to these digital platforms, particularly related to the quality of jobs they provide, and related to supply-induced consumption. I'm interested in what the balance between the risks and the benefits of these platforms are, so this should be a very exciting trip.

Another thing is, it's impossible to survive an Edinburgh winter without starting to think of the conditions of our buildings, so I've been doing quite a bit of work on this area.

I mentioned my colleague had been to an HVAC fair recently. If I'm really lucky, I'm going to be going to a cladding and insulation fair in Milton Keynes later in the year.

DP: Goodness me, watch this space. I think that's probably a good place to end this. Thank you, Apricot. It's really interesting to see that you have hit the ground running, and it'll be fascinating to see the developments that come from your work here, and particularly how this may influence the base-of-the-pyramid theme within the portfolio.

It sounds like the team, in general, have a really rich and exciting research pipeline ahead of them, and we really look forward to sharing updates with you in the coming months.

Annual Past Performance to 31 March Each Year (Net %)

	2019	2020	2021	2022	2023
Positive Change Composite	2.7	8.4	107.5	-5.6	-12.2
MSCI ACWI ex US	3.2	-10.8	55.3	7.7	-7.0

Annualised returns to 31 March 2023 (Net %)

	1 Year	5 Years	Since Inception* p.a
Positive Change Composite	-12.2	13.9	19.7
MSCI ACWI ex US	-7.0	7.5	9.2

*Inception date: 3 January, 2017



Source: Baillie Gifford & Co and underlying index provider. USD. Net of fees returns have been calculated by reducing the gross return by the highest annual management fee for the composite. **Past performance is not a guide to future returns.**

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