

The Museum of Progress

Tom Slater and Lawrence Burns

The things of today quickly become tomorrow's museum pieces. So, where does Scottish Mortgage turn to invest in progress that is futureproof? Tom Slater and Lawrence Burns explain

All investment strategies have the potential for profit and loss, Your or your clients' capital may be at risk.

Lawrence Burns (LB): I think, at Scottish Mortgage, we're investing in the future. We're investing in new ways of doing things, not the old ways.

Tom Slater (TS): We don't see any value in investing in the status quo. Today's products and markets are tomorrow's museum pieces. So much of financial markets is about expecting tomorrow to look like today. Most companies really don't make a difference to the world. It's about finding the outliers, the 1 per cent of companies that can really make a difference.

LB: What are the big long-term changes that are happening in the world, and who are the companies that are taking advantage of this to help shape our future? It's them that we're really out there to try and back and support.

TS: At the moment, some of the themes we're really interested in would include healthcare.

LB: What we're now seeing is, some of the tools we had in the digital revolution start to be injected into healthcare, injected into biology, and are speeding up the pace of change in really fascinating ways.

TS: We see, today, companies that are able to address some of the critical issues in our healthcare system, companies that can reduce cost, which has reached the point of being unaffordable, but also significantly improve outcomes for patients by helping with prevention rather than cure.

LB: So, a lot of progress in the last few decades has been about coding information in ones and zeroes, and we're now seeing companies leverage some of those technologies, and that's allowing us to go into the world of synthetic biology and really edit the world around us in ways that we really never thought possible before. That's the ability for companies to produce things like biodegradable plastics, but also things like new fragrances, new tastes. And this is a huge new area as we start to unlock the building blocks of biology itself.

TS: Our understanding of biology has traditionally advanced with PhD scientists working at a lab bench.

LB: What we're seeing is the applications of information technology to do things more efficiently. It's become more about using robotics and automation to speed up that progress and to be able to extract more data from each stage of it and analyse that using machine learning.

TS: And it means the number of experiments that we can do, the pace, at which our understanding evolves, has changed completely.

LB: We're seeing transport change in its many different forms. We're seeing the car become electric. We're also getting ever closer to the possibility of autonomous vehicles, the ability to have

vehicles that can drive themselves, drive us to work, drive our groceries, drive the things we're ordering online directly to us without a person. That's more efficient, and it cuts massively down on cost.

TS: And it's not just about passenger cars. It's about aircraft, it's about freight. The transport industry hasn't seen that much change since the invention of the motor car nearly a century ago.

LB: We need to decarbonise everything we do as a species, and that's a huge challenge. And it needs the provision of capital. And so, that's an area that we think is both, from an economic standpoint, hugely attractive, but also, from a societal viewpoint, absolutely crucial.

TS: Progress in society is driven by how we can produce and harness energy. The age of carbon-based energy is coming to an end. The way that we generate electricity is changing. It's far cheaper to generate electricity from solar or wind than traditional carbon-based sources. It's a huge radical change for the economy, and that creates all sorts of interesting opportunities from entrepreneurs who understand that change.

The food industry is also changing. We're moving incredibly quickly away from the model of preparing all our own food and going to supermarkets to buy it. Delivery is becoming much more efficient. The selection is increasing hugely.

LB: We have different parts of the world where kitchens are getting smaller because they're less needed. Even some apartments are now being sold without kitchens, sort of, preparing for that very different future of consuming food. And in the production of food, we're also moving to a system where we don't need to actually slaughter millions of animals each year. And this is done really by actually growing meat in a lab that's genetically identical, but it's done without the harmful side effects. And this isn't science fiction, it's science reality.

For the first time in the history of Scottish Mortgage, we're now investing in companies that operate outside of our planet.

TS: The birth of the commercial space industry has changed the cost of access to space. At the same time, miniaturisation and better electronics is improving the capabilities of the objects that we put into space.

LB: And what does that mean for us? It means the ability to better monitor climate change and change our very own planet earth. It means the ability to improve our communications by bringing internet connectivity through these satellites to regions that would never have got it otherwise.

TS: And that infrastructure provides the platform for us to go on and explore the solar system and ultimately occupy other planets. For us to be able to invest in progress, there are some key things that we need to do. First of all, we must be long term, because you need to give change the opportunity to happen.

LB: I think it's important to be able to invest and support change wherever it might be in the world, and so, for that reason, Scottish Mortgage is truly global. It's also important to realise that progress happens in both public and private markets. Progress isn't something that starts when a company floats on the stock market. It happens often well before then. I think there's a huge challenge in trying to understand what the future possibilities are, and I think, to try and do that

relying solely on the views of fund managers and the views of finance is probably quite dangerous. We need more than that.

TS: We need to have the opportunity to listen to the brightest minds in the world, whether they're in academia or running some of the companies that we own.

LB: I think it would be wrong if we spent a lot of our time backing disruptive companies and didn't think about how Scottish Mortgage as an investment trust could be disruptive. So, what we try to do is reinvest the scale of Scottish Mortgage back into low fees for our shareholders. And as we've expanded into doing private companies, we've tried to offer that at a similar fee level, which I think is very different from what you see in the rest of the venture capital industry.

TS: Investing in progress is about providing capital to the entrepreneurs, to the companies that can really change and improve our society and our economy.

LB: The purpose of Scottish Mortgage is to be open to new possibilities, to be open to change, to back that change and the people driving it, to help play a small role in facilitating that change. That's what investing in progress is really all about.

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