THE MONKS INVESTMENT TRUST PLC – MANAGER UPDATE

Jon Henry, client director, talks to Charles Plowden and Spencer Adair, investment managers on the Global Alpha Team, about their investment approach, the performance of Monks, how the Trust is positioned and what we are excited about moving forward.

Investment markets can go down as well as up and market conditions can change rapidly. The value of an investment in the trust, and any income from it, can fall as well as rise and investors may not get back the amount invested.

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A Key Information Document for The Monks Investment Trust PLC is available by visiting www.bailliegifford.com.

Jon Henry (JH): Hello, and welcome to the manager update for The Monks Investment Trust. My name is Jon Henry. I'm a director and product specialist in Baillie Gifford's Clients Department. I'm joined by Charles Plowden and Spencer Adair, two members of the Global Alpha Team, which has managed the trust since 2015. Hi, both.

Charles Plowden (CP): Hi.

JH: In this short update, Charles will provide a reminder of our investment approach and provide some colour on how Monks has performed in recent times, after which Spencer will provide information about how the fund is positioned and what we're excited about moving forwards.

Before passing to Charles, a quick word on where Monks is today. First, the board and the managers continue to successfully operate through the challenging period presented by the global pandemic.

The managers have successfully transitioned to working from home, something Charles will talk about later, and performance has been strong, in turn supporting the ongoing growth of the trust, which is around 2.5 billion sterling assets at the end of July.

A healthy ongoing premium is reflective of strong demand for the shares into which the company has been successfully issuing new equity. All of this has further supported cost reductions to shareholders, indeed the ongoing charges figure for Monks has fallen from 50 to 48 basis points in the past year.

All of this is vitally important as we seek to deliver attractive returns, net of fees, to shareholders over the long term. Now, with that mention of returns is a good juncture to pass over to Charles to give you an outline of our approach and touch on how the fund has performed. Charles?

CP: Thanks, Jon. The approach taken by Monks has been clear and consistent over the last five and a bit years, building on the more than 15 years that we've worked together as a team, and there are three key

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ingredients.

Firstly, we are reward-seeking, ambitious growth investors, focusing on long-term capital gains. We have a high hurdle for stocks to get into the portfolio, and it's all based on their longer-term growth potential.

Secondly, we see ourselves as long-term stewards. Because we're investing on a long-term investment hypothesis with low annual turnover, that means we have the opportunity to positively influence company management through engagement, and we think we can actually help good things happen to our holdings.

And thirdly, we're open-minded and we welcome a diversity of ideas and types of investment, as long as they all meet our growth criteria. And as Jon said, I'd also like to reassure shareholders that the team has adapted very well to working from home.

Our research productivity is probably higher than it was before, we have a very full pipeline of stock discussions ongoing, and company management are, if anything, more available to calls and contacts than they were before. So the team is very well-placed to carry on as we've been working, even if they will be doing so without me after next April, when I retire, with Spencer taking over as the lead manager.

So on to performance and returns, and I'll start with some figures. So if you look at the top left of the chart, the 12 months to the end of April, this was the end of Monks' fiscal year, but it was also very close to the end of April to peak Covid, at least here in the UK, and you can see, over this period, the net asset value rose by 3.4 per cent compared to the index, which fell by 1 per cent.

And of course this was a very volatile period, and this rather calm looking annual result includes big swings in the market, and also a first half year in which we lagged behind the index, and a second where we did much better.

And that better run has in fact continued since the end of April to date, so that if we look at the 12 months to the end of July, we're actually up by a low-teens percentage against the index, which is flat.

Now, one year is obviously a very short time period for a 91-year-old trust, and we think it's much more instructive to focus on longer-term performance. It's now more than five years since my team took on the management of Monks in March 2015, and if we look at the figure on the bottom right, you can see the very substantial outperformance since, approaching twice the market return in net asset value and more than twice the market return in share price.

And essentially, whether we're talking about the short term or the longer term, it's the same factors which have driven our performance, and that is a broad selection of strong, well-funded growth stocks, and, more recently, a reduced economic sensitivity, for example to manufacturing or banks, and very little exposure to energy companies.

And in a minute, Spencer will give you a flavour of the breadth of growth companies owned, but I thought I'd just mention three of our strongest recent performers, each of which has had a significant positive boost from what's been happening.

Lockdown has had a dramatic acceleration in a number of trends which were already happening, on stock which were already reflected in our portfolio, but all three of these are exposed to the development of online services, but in different markets and different ways.

So the Canadian company, Shopify, provides an increasing range of services to online retailers, and it originally focused on helping small companies get started and to scale up, but their products have proven

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so popular that even very large companies now use them. And they can do everything for you, from website design, stock-keeping, accounting, marketing, payments, now even delivery. And essentially they've become an alternative to Amazon for independent retailers.

Teladoc, on the other hand, is America's leading telemedicine company, connecting patients with practitioners across a range of medical specialties. They're building a very powerful network which is proving far better than the previous clumsy, slow, expensive system. And of course, logging online and talking to a doctor face-to-face is so much healthier than visiting your GP's waiting room.

And the third company, Sea, owns not one but two businesses, each of which are getting a huge boost from lockdown. Sea operates Indonesia's largest ecommerce platform, as well as a leading mobile gaming company, with games developed specifically for low-end mobile phones, as are used across most of the world's emerging markets.

Now, although each of these three have already more than doubled in share price in the first half of this year, they all now have a proven product or an increasingly valued service, and they're seeing increasingly accelerated take-up.

It's also worth pointing out that our recent strong performance is not all down to technology or internet companies like these three. We've also had good contributions from a broad range of companies, including a number in the healthcare sector. We've also had Moody's which is a bond-rating business, and even the restaurant operator Chipotle, performances across a broad front.

Spencer's now going to give you more of a flavour of the range of the portfolio and what we've been doing, but I would like to just point out that we're currently finding more and more investment ideas which meet our growth and return hurdles, which is a very healthy state of affairs and which bodes tremendously well for the future. So, Spencer?

Spencer Adair (SA): Thank you, Charles. For those of you who have met us before, admittedly not under these circumstances, will have heard several times how we break the portfolio up into the four patterns of expected growth. Starting on the left of the stalwarts, the very well-established stocks with strong competitive advantages.

These are the stocks that can build wealth over ten or 20 year periods. We've taken advantage of some weaker, short-term results to buy new holdings. Just two examples would be adidas, that sells sports clothing and shoes, and Estée Lauder, the premium skincare and make-up company.

Both have really deep brand heritage built up over decades. It's this brand duration that leads to long-term pricing power. Both companies can put up their prices every time they launch a new product. We are finding more new ideas in stalwarts than before, and we're taking advantage of lower valuations to start building these up.

Next along, the rapid-growth companies have been doing a lot of the really heavy lifting in the most recent past. As Charles has highlighted with his three examples, we have seen a material acceleration in many of our rapid, technological leaders. Covid has, in aggregate, been very helpful to some of our long-term cases.

We've been challenging ourselves to ensure that the increase in demand is structural and that our views remain different to the market. Can it still double from here?

We've generally been recycling capital within rapid, with the reduction of some long-held companies,

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Tesla and Seattle Genetics, and the complete sale of others, Chipotle Mexican Grill and MarketAxess, and those companies have been reduced or sold because they no longer meet that doubling criteria. And that frees up capital to reinvest in the next generation of disruptors, such as Teladoc and Sea.

I'll pause at this point to highlight that one of the reasons for the strong near-term performance was that we, from a purely bottom-up perspective, entered 2020 with three-quarters of your portfolio in stalwarts and rapid. These are our most economically insensitive growth buckets. That's as a stream positioning away from the more economically-sensitive cyclicals and latents, as we've had.

We did not see Covid coming but we were preparing for a normal, general economic slowdown. We were fixing the roof while the sun was shining. It feels good to have prepared and to have that watertight roof. It's meant that we haven't been running about chasing our tails, trying to reposition the portfolio. The only clean-up we did was to sell some banks where we feared would have rising bad debts.

And since then we've been very much on the front foot, looking for positive ideas. We have potentially a lot of dry powder to deploy across cyclicals and latent growth if, and that's a big if, opportunities arise to back great management teams.

We are beginning to build holdings in such superior businesses, the well-managed structural winners. We've been looking primarily at the heart of the storm, the middle of the storm.

I'm referring here to both the direct travel stocks, where demand has fallen very, very sharply, such as Bookings.com, the hotel bookings website and also commercial property, and CBRE would be the example there.

It feels like there could be a rich seam of ideas opening up here, and it wouldn't surprise me if we continue to add to these structural winners, especially if demand and near-term trading remains depressed.

The next slide, on page five, breaks the portfolio down in a different way, but tells a similar story. This analysis is more forward-looking and a bit more granular. The largest circle here, having one-third of the portfolio in highly scalable, cash generative tech platforms has been fantastic. They have net cash on their balance sheets and they're enjoying this acceleration of demand. That's leading to much, much higher profit estimates when one looks out five years.

Moreover, huge, massive new areas are opening up to technology. Some of this is geographic areas and we talked about that with Southeast Asia, but also huge parts of our economy that are hitherto untouched are now beginning to embrace technology, and that can be in healthcare, insurance, justice and education. So this is a very fertile ground for finding tomorrow's winners.

What's changed more recently is that there are three areas where we are finding an increasing amount of new ideas. First is direct healthcare – not a surprise during a pandemic – but we are seeing really interesting new business models emerging as a result of progress in underlying core technologies. We could be at a real tipping point.

Secondly, as I've mentioned, the compounding machines, such as Adidas and Estée Lauder, and we have several other ideas that are just waiting for a set or two of weak numbers before we buy.

And then thirdly, the growth cyclicals, particularly in travel, as things stopped and the pain is most acute. We are seeing material entrenchment of weaker travel players, allowing those with superior balance sheets and operating models to hoover up market share. We don't know when demand will return, but we think the market shares of our companies will be higher when it does return.

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I don't remember so many new fronts for new ideas opening up all at once. We are like children in a sweetie shop, albeit we are remembering to wear our masks. Jon, back to you.

JH: Thank you, Spencer. Thanks, Charlies. That's great insight into the portfolio, there. And I've got two, three questions here to pose to you. Perhaps Charles first. Charles, some of the examples that you talked about there, the technology-enabled companies that have contributed strongly to performance, could you talk about how we think about the valuation of these companies that are particularly fast-growing, and where we've seen a lot of movement in a short space of time?

CP Yes, sure. So the examples I gave have all more than doubled in the year to date, but we do think that's broadly appropriate and backed up by the fundamentals. And maybe of our digital and tech-enabled businesses have seen massively accelerated adoption of services, and have been able to prove their utility and to change consumer behaviour, and have probably also cemented their leading competitive positions.

So their markets are larger and their success is more assured than at the start of the year, and while the details will differ from one to another, every stock in our portfolio has to be capable of meeting our return hurdle, which is to double over five years.

And we regularly retest this upside, especially when stock prices move sharply, as some of them have. And this involves revisiting the fundamentals, so where could the revenues get to in five years, what margin is achievable on those revenues, and what multiple would the market likely put on those profits when we get there, i.e. is it still growing and accelerating or is it mature and slowing?

And in some cases, we find that the probability of doubling is coming down. We have less confidence in the two-times case, and that would typically lead us to reduce, as we recently did with Facebook, or even to sell out completely, as we did with Chipotle and MarketAxess, which Spencer mentioned.

JH: Thanks, Charles. Spencer, Monks benefits have been right at the heart of Baillie Gifford's research capabilities, can you give us a sense of why that's important, and perhaps an example of where that's really benefited the portfolio?

SA: Of course. So why it's important is, frankly, Charles, Malcolm and I couldn't cover the world and every single possible stock, between the three of us, and so we welcome and leverage the over 100 of our colleagues that are going round the world looking for great growth ideas.

And we are fortunate that we have a culture where those ideas are absolutely shared with everybody and we get to see and uncover. So for us, it's a really large scouting network that are covering the globe and bringing the ideas to us, so it's a way that three people can do the job of hundreds, and we love that. And that's crucial.

In terms of an example, frankly, Jon, you could pick any stock. And I don't mind if you want to pick a stock, but the company that Charles and I were discussing just before this call is a company called Farfetch, which is held in Monks and it's an online luxury goods company.

And to give you a feel for who's helped us with this company, even before Farfetch listed, we'd met them, Malcolm had met the CEO, and that's testament to the increased efforts that we're making with unlisted companies.

We routinely are now meeting lots of unlisted companies. They help us calibrate what our listed companies are doing, and they help us have a better appreciation for different business models. So that's

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been a big area for investment for the firm, and something that we're seeing direct benefits of.

Since Farfetch has listed, we've had a great deal of help from our colleagues, particularly our UK colleagues - Farfetch is headquartered in London, in Shoreditch - and also our European colleagues, because its suppliers, key luxury brands, are often European. And indeed one of their competitors is owned by a European conglomerate, so we've been comparing notes every time that we've talked.

And also, our colleagues have helped. One of the big growth drivers for the next decade is going to be China, and going to be 'Can they win in China?', and our Chinese office have been really helpful, giving us lots of colour, our new Chinese research office giving us lots of colour there.

And we actually sent one of our core team members out to China for two months last year, to spend time looking at lots of things but explicitly she was investigating Farfetch and how they're operating in China. So you see that level of debate and discussion is typical.

And then finally, as Farfetch's growth has been accelerating, one of our other global teams, and indeed our US team, have also been discussing it with them. So every stock will have three, five, ten pairs of eyes will have looked at it, kicked the tyres, tried to challenge it from different perspectives, either philosophical perspectives or geographical perspectives. And that means that we have a much better understanding of how the company really operates and its competitive positioning. I think our understanding of competitive advantage is greatly enhanced by the breadth of research that we do, and our colleagues help.

JH: Thanks, Spencer. Charles, just to round off on a positive note, as growth investors we absolutely seek a positive mindset when we're looking at companies, as Spencer outlined there, but how and why does that help us in our search for attractive returns for investors in Monks?

CP: Of course. We think that equity investing is all about capturing the upside. If you want downside protection, then you should buy an insurance product or maybe go for a bond portfolio.

The whole point of equities is that they give you exposure to economic growth and value creation, and the magic of asymmetric returns, which we often talk about, in that you can only lose what you invest once, but you can make many, many multiples on your investment.

But to get those multi-bagger, those fantastic long-term investments, you do need to be optimistic and ambitious with your investments. You need to pick the ones that really can change the world. And we found simply that the more ambitious we become the bigger the returns we can earn from our investments. So that's why we are resolutely optimistic.

JH: Great. Thank you very much, Charles and Spencer, for your insights.

CP: Thank you.

JH: That leaves me to thank you for watching, and for your ongoing support for Monks. You can find further information in relation to the trust at www.monksinvestmenttrust.com.

Annual Past Performance to 30 June each year (%)

	2016	2017	2018	2019	2020
The Monks Investment Trust PLC	3.2	59.9	22.1	9.5	15.3
FTSE World	14.6	22.9	9.3	10.4	5.8

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Source: Morningstar. Share price, total return.
Past performance is not a guide to future returns.

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The aim of the trust is to achieve capital growth. You should not expect a significant, or steady, annual income from the trust.

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