Baillie Gifford™

UK Alpha
Q1 investment update

April 2025

Investment manager Milena Mileva and investment specialist Chloe Darling-Stewart give an update on the UK Alpha Strategy covering Q1 2025.

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

Chloe Darling-Stewart (CDS): Hello and welcome to this Baillie Gifford UK Equity Alpha update. My name is Chloe Darling-Stewart. I'm an investment specialist with the team and I'm delighted to be joined today by Milena Mileva, a partner in the firm and lead portfolio manager on the UK Equity Alpha strategy. Welcome, Milena.

Milena Mileva (MM): Thank you, Chloe.

CDS: As a brief reminder, our UK alpha strategy is looking to find the very best of British growth businesses and invest in a concentrated portfolio of 30 to 50 companies over the very long term. Over the next 10 minutes or so, Milena and I will discuss what's been going on in the UK market, some of the key themes driving recent performance, portfolio activity, and then round up with why we remain confident about the outlook for your portfolio from here.

So, Milena, to kick off, it's been a particularly volatile quarter. In your experiences, how has this quarter compared to other turbulent periods that you've navigated and what lessons can we learn from that?

MM: Yeah. What lessons can we learn from it? I mean, look, the drivers of volatility in any given period are different. Clearly, what's been driving market volatility in this last quarter has been worries around geopolitical tensions and trade tensions and tariffs imposed by the US on the rest of the world and really the implications this would have for the global economy in terms of growth and inflation outlook. That's what's been driving the volatility over the quarter.

So the drivers change from one period to another. I think what never changes, especially in periods of very heightened volatility, I think what really always remains the same is that they do create some fantastic opportunities for long-term investors. I think that's the part that we shouldn't lose sight of during this period. You know, the famous saying, be greedy when others are fearful. I think that springs to mind this quarter more than any time over the last number of years. And we've gone through some pretty volatile periods since 2019, really. I think that for bottom-up stock pickers, these periods can be really quite exciting, actually, because if you are focused on fundamentals and due diligence and finding the best companies, I think periods like this provide some incredible valuation opportunities for those who are willing to be greedy and invest for the long term. So I think it's in some ways a pretty good backdrop to be a long-term equity investor.

CDS: And in amongst that, clearly, it's been a challenging period for performance. Are there any key themes that you would draw out that have contributed to that?

MM: Yeah, well, the portfolio is very different from the benchmark, as you said in the beginning. It's very concentrated, it has a 92 per cent active share. And that's just come through this quarter in some very significant thematic headwinds in terms of style with rotation towards value-orientated and defensive companies, and on the other side, some mid-caps, smaller companies, and growth companies being really quite indiscriminately punished amidst all this market uncertainty and volatility. So that's been the main driver of performance. There's always one or two individual detractors that we can go into the detail of. But that backdrop has been, I think, the big driver behind the underperformance in the quarter.

CDS: And in terms of the stock specifics, are there any that you would particularly highlight as being detracting?

MM: 4imprint, distributor of promotional products in the US, has been the key detractor this quarter. It is an investment which has been really very rewarding for us over long periods of time. But this quarter, the company detracted. The reason for it is that a lot of 4imprint suppliers import goods from China. 4imprint itself holds no inventory, really, or very little inventory. It's a very capital-like business and has fantastic returns and a very strong balance sheet. It has no debt. But its suppliers, obviously, are going to be affected by tariffs, and the overall industry will be affected by tariffs.

We think the effects are manageable for the industry and for the company specifically. Clearly, the market's also worried about knock-on implications in terms of a US recession and what all the tariffs would do to confidence for US businesses and how that would affect the backdrop for the industry. But we think 4imprint is exceptionally well-positioned. It has continued to outperform the underlying industry by a pretty decent margin. It continues to gain market share. And we don't think this is going to change. In fact, we think periods of turbulence create fantastic opportunities for it to gain more market share. And as I said, There is no debt. The balance sheet is very strong. It's a very flexible cost base. So there is no worry in terms of its financial resilience. And yet, the valuation is pricing in a hell of a lot of fear. And we think, actually, it's a really compelling opportunity at the minute.

CDS: And despite some of the challenges the portfolio is facing, there have been some bright spots, notably Genus and Games Workshop. Could you talk us through some of what's going on there?

Yeah. I mean, Games Workshop is the largest holding and the trends there really is a continuation of what we've seen over the last number of years. The company really has outperformed our own expectations around both its core miniature business, but also its more nascent licensing business. And in this particular period, it has been the licensing business, which has driven a lot of success in terms of earnings, short-term earnings momentum. There was a pretty successful game called Space Marine 2, which was launched last year and has gone down very well with customers. It's been a helpful driver of earnings.

More importantly for us, the longer term opportunity for that licensing business is what we would think about and that we think is developing well. It's clearly the Amazon series, which is now going to be in the making. So we remain very confident in the long term fundamentals of the company, but the short term has been very strong too.

CDS: You mentioned about these periods of volatility often throwing up opportunities. Have you made any changes to the portfolio this quarter?

MM: We have added to a range of existing holdings. What we've also done is purchased a new holding for the portfolio. In a company, I think, again, speaks to this this idea of market uncertainty creates some hopefully compelling opportunities.

It is a company called Croda, a specialty chemicals company, which we have admired for many years, but never invested in. And really the main impediment to that has been valuation historically, as well as what has been a fairly pedestrian organic growth. Now, we think both of those things have changed. The valuation has changed because Croda has gone through a pretty tough cyclical backdrop with pandemic-related de-stocking in its customer base, which is hopefully coming to an end. But it has been a very tough period for its earnings. And what's also changed is the fact that the company is really focused on its most attractive assets and has invested a lot in those assets throughout the last three, four years. And we think that means the organic growth is likely to be higher through the next cycle than it has been in the past.

So it's this combination of, we think, that the growth prospects have been upgraded. It's a very high quality business with good margins and returns. And at the same time, there's been a short-term uncertainty around earnings. And that's created an opportunity for a long-term investor, we think.

CDS: The last question I wanted to ask you, Milena, was looking at the overall operational health of the portfolio and the progress that you're seeing. Could you share your perspectives on where you feel the portfolio stands today and your confidence or how you feel about the confidence looking forward?

MM: Yeah, I think the portfolio is in good shape. As I said, 4imprint is not an isolated example. I'd say most of our companies are in that same position, i.e., very strong balance sheets and a really robust starting position in terms of profitability and strong competitive positions. I mean, there's no denying that the macroeconomic environment will be tougher, but we think our holdings are a better place to weather this period than the average company in the all share.

So, from a fundamental perspective, I remain very confident in the underlying businesses. And as I said, the exciting part is that the valuations now don't really reflect the long-term potential as well as the quality of these assets. So, I think we're going to tough out what's quite a difficult period for performance, but we believe in the fundamentals of the portfolio.

CDS: Well, I think that's a fantastic place to end things. Thank you, Milena.

MM: You're welcome.

CD: I hope that's given you a good sense of what's been going on in the portfolio this quarter and why we remain confident in the outlook for your portfolio going forward. Thank you very much for tuning in and please do get in touch if you have any questions.

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com

UK Alpha

Annual past performance to 31 March each year (net%)

	2021	2022	2023	2024	2025
UK Alpha Composite	59.7	-23.4	-9.9	6.2	0.9
FTSE All Share Index	41.0	7.9	-3.3	10.8	12.9

Annualised returns to 31 March 2025 (net%)

	1 year	5 years	10 years
UK Alpha Composite	0.9	3.4	2.4
FTSE All Share Index	12.9	12.9	4.7

Source: Revolution, FTSE. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

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Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com

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