
SCHIEHALLION - MANAGER INSIGHTS

Robert Natzler, investment manager of The Schiehallion Fund, gives an update on the team's activities during a year of working remotely, followed by an overview of portfolio performance, transactions and IPOs. Natzler also takes the opportunity to reiterate the investment philosophy of The Schiehallion Fund and thank shareholders for their ongoing support in the fund's first two years.

The value of your investment and any income from it is not guaranteed and may go down as well as up and as a result your capital may be at risk.

This film was produced and approved in May 2021 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

Introduction

Robert Natzler: The last six months have continued to be a trying period for many of us, I think, particularly as lockdown restrictions have made it more difficult than normal to spend time with friends and loved ones. We feel quite lucky at Baillie Gifford, all things considered, that we've been able to carry on working from relatively quiet and well-lit home offices, and with colleagues who are increasingly familiar with tools like Zoom and Slack, that have become the basis of our working lives.

We've been keeping morale high where possible by going on walks either in the hills around Edinburgh or in the many parks within the city. And we've been keeping in touch with our colleagues in Shanghai, New York, and San Francisco with regular one-on-one catchups over Zoom. So, all in all, morale is still high on the team, and we've been able to get an awful lot done.

Holdings

Many of our holdings have been able to achieve really strong performance over the course of the last six months. Companies like SpaceX building out a new generation of internet infrastructure, or Scopely in mobile gaming, ByteDance, the owners of TikTok, or Tanium in enterprise software, all of these businesses and more have been able to achieve really strong growth despite a difficult business environment.

In a lot of these cases, we've had the opportunity to put a bit more capital to work, often at valuations that are rightfully higher than the last round where we invested. When making those decisions, we felt in many cases that if anything, our thesis and our conviction has deepened faster than valuations have increased.



We truly believe that inside that part of the portfolio, we have some businesses that have the opportunity to be counted among the truly transformational growth companies of this generation. We're lucky to have them. And in a lot of cases, we feel that they remain drastically underestimated by the market at large.

The other part of the portfolio contains a few companies that have struggled a bit more over the last six to 12 months. These are businesses that have faced a difficult business environment and have often had to make quite difficult decisions around cash flow efficiencies and staff retention.

In all of these instances, our message has been consistent, I hope, with our philosophy as long-term and therefore patient investors. We truly believe that being a good investor is not just about being there with companies when times are good, but also being patient and giving them the space they need to deal with problems when times are bad.

And so, our message has been, focus on preserving your long-term strategic opportunity, stabilise the business, and look after your employees. Make sure they're safe, and make sure you're retaining the best ones. This has been a message that has been very well received by many of our founders, and it matches, I think, a lot of the feedback we've received from founders both present and past over the years about why it is that Baillie Gifford is often the investor of choice for many private companies.

New Buys

We've also been able to take starter positions in five new, really exciting companies around the world. In North America, we've invested in Chime Financial. Chime is a neobank, a digital bank, serving consumers across America. We've looked at a lot of businesses like this over the years, but Chime has been the first one where we've really had every single checkbox on our list ticked as to what a world-class business model in this area would look like.

We've also invested Honor. Honor is an app that enables people to book at-home care for either themselves or their elderly parents in a similar modern fashion to that provided by Uber for people looking to buy taxi cabs. We believe that this could very well be the future of elderly care in the US and are really excited to support their expansion.

We've also invested in a third US business. Nuro is going after what we know to be some of the hardest problems in delivering autonomous driving and doing it with a business model that also looks to crush the costs of delivery of things, ranging from groceries to meals. It's a really exciting business and one that we've been very happy to take a starter position in.

Outside of the US, we've also made an investment into Northvolt. This is a Swedish battery manufacturer that looks to sit at the heart of the emerging electric vehicle supply chain within the European Union. It's got some world-class executional talent and some fantastic partners, and we're really excited to see what they build.

And then finally, in China, we've made an investment into Jiangxiaobai. Jiangxiaobai is a new-generation drinks brand, selling to the growing numbers of young Chinese men and women in the



coastal cities, who have money in their pockets and who are excited to start trying alcohol, as it transitions from being more of a ceremonial drink to something that's drunk in social situations either on a night out with girlfriends or in cocktails in a club.

These five businesses all have the potential to be truly transformative, and we're really excited to see where they go.

IPOs

Over the last six months, we've seen the first two Schiehallion holdings list into public markets via IPO. I'm referring, of course, to Airbnb and to Affirm. At the time of speaking, we're still inside the lockup periods on the shares of these companies, but I hope it won't come as a surprise to anyone that we're not planning on being automatic or forced sellers as soon as those lockup periods expire.

We believe that exceptional companies are very hard to find. And whilst we strain every sinew to keep finding them within the private markets, we believe we would be foolish to throw away the ones we have found simply because their shares happen to be listed on public exchanges.

Going forwards, therefore, it's our intention to continue judging these companies on their own merits with an eye on the opportunity cost of being able to recycle that capital into new private opportunities, but also with an eye on just how much further they can run within public markets. This is in keeping with our philosophy that we set up when we founded Schiehallion, and is, I think, one of the main offerings we're hoping to bring to the table.

We know from talking to founders that for many of the best leaders of late-stage private companies, the ability to have a shareholder who stands with them through the IPO moment and can continue supporting them for many years after is a really big draw and a major factor at how we're able to get access to so many great companies in the first place. And so, you shouldn't expect us to betray that promise in the instances of these two businesses.

Conclusion

Coming up to year end, we can see that the portfolio is now 87 per cent fully invested. Given the number of ideas coming up both through our new ideas pipeline, but also the number of opportunities we expect to have to add more to existing holdings in the coming months, we anticipate being fully invested before too much longer.

With that in mind, I think Peter and I both feel this is the right moment to say thank you to everyone who's backed us over the course of the last two years. As you'll remember, when we launched Schiehallion two years ago, we did so with two theses as to how we could generate good returns for our clients.

First, we were going to go before the IPO to find the great growth companies of tomorrow while still in private markets and supply them with the kind of long-term backing that we sadly believe is still undersupplied by the late-stage venture capital industry.



And second, that we would continue to hold those fantastic companies after the IPO line rather than being forced sellers, continuing to benefit from the compounding effects of the truly great companies growing into their opportunities. We believe that we're in the early stages of seeing that proved out.

But I think something else is also important in the initial thesis behind Schiehallion, and that is that it's important to founders of private and public companies to have truly long-term shareholders who can act with patience when waters are choppy and with ambition when the opportunity in front of them is large. We're aspiring to be that kind of shareholder.

But in the same way as it matters for our holding companies to have Schiehallion behave in that fashion, it's important for us as the managers of Schiehallion to have shareholders who share that vision and have that ability and willingness to be patient. We know from our conversations with you over the last two years that you all share that vision and that ambition. And so, we just wanted to say thank you for supporting us in this journey and making this all possible. It really is a team effort.

Annualised Past Performance to 31 March each year (net %)

	2020	2021
The Schiehallion Fund	17.0	26.9

Source: Morningstar, share price, total return.

Past performance is not a guide to future returns.

The Schiehallion Fund was launched on 27 March 2019. Performance information is available from this date.

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