MANAGED FUND – MANAGER INSIGHTS

Lucy Haddow, product specialist, speaks to investment managers Steven Hay and Iain McCombie about the Managed Fund, as they reflect on 2020 and look forward to what's to come.

The value of an investment in the fund, and any income from it, can fall as well as rise and investors may not get back the amount invested.

Past performance is not a guide to future returns.

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

Lucy Haddow (LH): Hello, and welcome to this insight video. My name is Lucy Haddow. I'm a client director at Baillie Gifford, with dedicated responsibility for the Managed Fund.

We've put this film together to give you the opportunity to hear from the fund's co-managers, Iain McCombie and Steven Hay, asking them the key questions that as owners, or perhaps potential owners, of the fund, we know are on your mind. So, Iain, to start things off, could you offer some reflections on 2020?

Iain McCombie (IM): Sure Lucy, 2020 was a tumultuous year, and 2021 will no doubt present challenges as well. Now, we're often asked at times like this, what are you doing? How has the fund performed? And how are you thinking about the future? Now, we spend a lot our time thinking about what can go right, rather than what can go wrong, which might sound a little bit strange, particularly at the moment. But we think that investors in the fund are far more likely to benefit from good returns for the long term by taking an optimistic approach. And that's certainly been the case, looking back at our historic performance.

LH: With that in mind, Steven, could you provide a bit of colour on what, if any, asset allocation changes were made in the fund, in response to the pandemic?

Steven Hay (SH): Sure, Lucy. Well, the short answer is we've done very little. I think the main point is that we are very consistent in our long-term optimistic approach. We haven't changed our philosophy since the fund launched in 1987. So, amidst the pandemic, we've just stuck to our knitting.

We've kept the fund broadly in line with the strategic allocation of 75 per cent in equities, and 25 per cent in bonds and cash. And in fact, the tone of our recent investment discussions has really been quite upbeat, as we're finding plenty of reasons to be optimistic amidst the current gloom. And we're happy that those strategic allocations are appropriate for now.

And this allows us to focus on finding quality companies that can transform industries, holding them for a long time, alongside a best-ideas global bond portfolio, and an allocation to cash. And it's that combination that's been key to us delivering good performance.

LH: So, Iain, as we've heard from both you and Steven, performance has been good over the course of the past year. Which holdings have made the greatest contribution to returns, then, in 2020?

IC: Well Lucy, you're right that a number of holdings made very strong performance last year, but actually the encouraging thing from my perspective is that all our regional equity teams' performance was very good last year. But you're right that there was quite remarkable performance from several of our holdings. And Tesla is one that clients are often asking us about.

The share price in Tesla was especially strong in 2020 and we think there are good reasons for that. The company delivered nearly 500,000 vehicles last year and it appears increasingly likely to capture a significant share of the global car market in coming years.

Now, it's not been an easy holding over the years (by holding Tesla), but we remain hugely enthusiastic about the opportunities from here. But recognising the strength of returns, we have reduced Tesla a few times over the last 12 months.

Now, another notable contributor was Zoom, the video conferencing business. Now, as luck would have it, we bought Zoom for the fund in the final quarter of 2019, when nobody had ever heard of coronavirus. And in June, the company announced that daily meeting participants had risen from ten million at the end of 2019, to over 300 million in April last year.

But we're still keeping the long term in mind, and we remain very enthusiastic about the opportunity for Zoom from here.

LH: Thanks, Iain. Steven, one thing that I'm often asked about is, with so much uncertainty still ahead, is now really a good time to be investing in bonds? What's your view?

SH: It's a fair question, Lucy, and it's one that Iain does ask me from time to time. I think the key thing is that we are active bond pickers. So, while there are lots of areas of the bond markets which are not particularly attractive, we don't have to hold those. So, what are we finding?

There are still some government bonds that offer a higher yield and a steady but attractive return. Australian bonds, for example, have a yield of 2 per cent, well above UK gilts. And if you select carefully, there are some well-managed emerging markets that offer attractive bond yields. Countries like Mexico and Indonesia, where local currency bond yields are around about 6 per cent.

We've also been enthusiastic about corporate bonds. Market conditions in 2020 presented an attractive opportunity for us to add to these holdings, buying the likes of Alibaba and Apple. And looking ahead, high-yield credit in particular should perform well, as central bank spending continues and economies continue to recover.

So, yes, from our perspective, it is a good time to be investing in the right type of bonds. And we think our fixed-income portfolio is well positioned to deliver returns and provide that all-important balance for the equities in the portfolio, just as they did during the pandemic.

LH: Iain, as a final question, then, where are we finding the next generation of equity ideas coming from, to support the future growth of the Managed Fund?

IC: Well you know Lucy, the most encouraging thing for me is, despite the fact that we generated very good investment returns over the last few years, we continue to find a wealth of new ideas coming from all our regional equity teams. So, to give you a flavour, let me highlight two stocks.

In the second half of last year, we took a holding in a US online used-car marketplace called Carvana. Now, this is a classic disruptor and has a huge addressable market in front of it.

We also took a stake in a German kitchen equipment manufacturer called RATIONAL. Now, a very different business. Long established. Strong market positions already. But we still think has great growth opportunities in front of it.

So, two companies doing vastly different things, but importantly, both have big opportunities for growth in front of them. Now, Lucy, I should emphasise that portfolio turnover in the Managed Fund remains very low, because we're long term in our thinking. And what that means is that our teams have already identified and already own in the Managed Fund, quality growth businesses which we think are well-set for the years ahead. So, to sum up, I'd say that it remains a great time to be a growth investor.

LH: Brilliant. Thank you so much, Iain and Steven. And on that optimistic note, I think that's probably a good place for us to finish up. If you're watching and you'd like to find out more, then please follow the website link, where there's plenty of information available about the Managed Fund, and you can find ways to get in touch with us also. For now, thank you very much for watching. We send you our best wishes for a healthy and safe start to 2021.

Managed Fund Performance

	1 YEAR	5 YEARS	10 YEARS	20 YEARS
Fund (net) p.a.%	33.8%	16.2%	11.6%	8.5%
Comparator p.a.*(%)	5.1%	7.3%	6.1%	4.6%
Difference p.a.%	+28.7%	+8.9%	+5.5%	+3.9%

Past performance is not a guide to future returns.

Source: StatPro and FE, as at 31 December 2020. Managed Fund in sterling. *Comparator refers to Comparator Benchmark: IA Mixed Investment 40%-85% Shares Sector Median (Net) (CAPS Pooled Median (Net) to 30 September 2004, IA Balanced Median Quarterly (Net) to 30 June 2009). Figures may not sum due to rounding. The ACD believes that an appropriate comparison for this Fund is the Investment Association Mixed Investment 40 - 85% Shares sector median, given the investment policy of the Fund and the approach taken by the manager when investing the Fund's portfolio.

BAILLIE GIFFORD

Annual Past Performance to 31 December Each Year (%)

	2016	2017	2018	2019	2020
Baillie Gifford Managed Fund	17.0	15.0	-2.2	20.4	33.8
IA Mixed Investment 40-85 per cent Shares	13.1	10.0	-6.0	15.8	5.1

Source: StatPro. Managed Fund B Inc. Sterling. Net of Fees.
*IA Mixed Invested 40 per cent-85 per cent Shares Sector Median (Net)
The manager believes an appropriate comparison for this fund is the Investment Association Shares sector median given the investment policy of the fund and the approach taken by the manager when investing.

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Top Ten Equity Contributors
Five Years to 31 December 2020

	Fund Average Weight (%)	Total Attribution (% p.a.)
Tesla Inc	1.2	0.9
Shopify	0.6	0.4
Amazon.com	1.8	0.4
The Trade Desk	0.3	0.3
MarketAxess	0.9	0.3
Wayfair	0.6	0.2
MercadoLibre	0.4	0.2
Sartorius Stedim Biotech	0.4	0.2
Netflix	0.7	0.2
Nibe Industrier	0.7	0.2

Bottom Ten Equity Contributors
Five Years to 31 December 2020

	Fund Average Weight (%)	Total Attribution (% p.a.)
Apple	0.0	-0.2
Microsoft	0.0	-0.1
TripAdvisor	0.1	-0.1
Capita	0.1	-0.1
DIA	0.2	-0.1
Anglo American	0.0	-0.1
Just Group	0.3	-0.1
Nestle	0.5	-0.1
Infineon Technologies	0.2	-0.1
Hargreaves Lansdown	0.5	-0.1

Source: StatPro.
Managed Fund relative to representative regional indices.
Excludes Baillie Gifford pooled vehicles.
All attribution figures are calculated against the index on a geometric gross of fees basis.

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The fund has exposure to foreign currencies and changes in the rates of exchange will cause the value of any investment, and income from it, to fall as well as rise and you may not get back the amount invested. The fund invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.

The fund's share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the fund is priced.

Bonds issued by companies and governments may be adversely affected by changes in interest rates, expectations of inflation and a decline in the creditworthiness of the bond issuer. The issuers of bonds in which the fund invests, particularly in emerging markets, may not be able to pay the bond income as promised or could fail to repay the capital amount.

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