MONKS INVESTMENT TRUST MANAGER INSIGHTS

In this short film, investment specialist Jon Henry discusses changes to the portfolio, the impact of inflation on recent performance and how market volatility can lead to positive outcomes for active stock pickers.

All investment strategies have the potential for profit and loss, capital is at risk.

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A Key Information Document is available at bailliegifford.com

John Henry: Hello and welcome to this manager update for the Monks Investment Trust.

My name is Jon Henry and I am a Director in Baillie Gifford's Clients Department and a specialist on Monks. In this short update, I will touch on what Monks sets out to achieve, recent performance and outline how the portfolio is positioned looking forward.

Monks' proposition
Monks seeks to deliver capital growth by investing in a diversified collection of what we believe to be the most compelling growth stocks anywhere in the world.

We recognise that companies grow in different ways and embrace three earnings growth patterns, investing in a mix of what we call Stalwart, Rapid and Cyclical growth companies.

Our belief is that share prices follow fundamental progress in earnings over long periods, therefore our objective is simple - to be long-term holders of growth companies and to let the power of compounding work its magic.

We endeavour to keep costs low for investors. As assets grow proportionate fees fall, whilst portfolio turnover is low, which minimises trading costs.

Performance
Monks has a strong long-term track record since the current Global Alpha team took over in 2015. But more recently, performance has been challenging.

The impact of the global pandemic on supply chains and a war in Europe has, in part, led to rising inflation and interest rates which has underpinned extreme volatility in equity markets. This has shortened investors time horizons and minimised their tolerance of uncertainty, shaping a challenging environment for optimistic growth investors, like Monks.

As a result, growth stocks have seen their share prices fall sharply, which has underpinned the recent weakness in Monks' share price.

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We recognise that we've made some mistakes in the stocks we have selected, however, remain confident in a vast majority of the portfolio.

We believe that the companies Monks invests in are higher quality (in other words have stronger balance sheets and are less reliant on external funding), possess appropriate levels of flexibility and pricing power to navigate a period of rising inflation, and have better growth prospects than the broader market.

Portfolio Positioning

The Monks portfolio is intentionally diversified. It has around 35 per cent invested in growth 'Stalwart' opportunities – typically well-established companies with considerable pricing power. Examples here include Elevance Health, in US health insurance, Microsoft, the leading productivity software and cloud computing business and Moody's, the credit ratings agency.

But Monks also embraces 'Rapid Growth' companies – investing around 40 per cent in the earlier stage businesses which are investing heavily today to become the winner of tomorrow.

These companies have been among those most severely punished in share price terms this year given their path to profitability is less certain.

However, we remain focused on the long-term transformational potential of many of these businesses. Companies that we are particularly excited about include Farfetch, in online luxury goods, and Doordash, in food and grocery delivery in the US.

We also recognise the importance of capital allocation in driving long-term returns and therefore invest around 26 per cent in 'Cyclical Growth' opportunities. We favour management teams with good counter-cyclical capital allocation skills which underpins holdings in companies like Martin Marietta, in building and aggregates supply, and TSMC, in semiconductor manufacturing.

Looking forward, we are excited about the opportunities available to us as active stock pickers in a market where share prices appear to be significantly dislocated from the underlying progress being made by companies.

Therefore, we have begun to take advantage of this by adding positions to the portfolio in companies which we have long admired but been unable to invest in on valuation grounds.

One example is the purchase of Adobe, the digital content business. Most commonly related to the ubiquitous PDF writer, Adobe's capabilities are far-reaching. It has developed a compelling suite of products in the digital space which enable customers to create and optimise digital content.

It is underpinned by the ongoing trend towards digitisation and a unique corporate culture which focuses resolutely on improving the customer experience.

Elsewhere, we have continued to seek companies that bring alternative revenue streams to the portfolio. We recently purchased a position in Royalty Pharma which purchases rights to biopharmaceutical royalties and provides funding for late-stage clinical trials.

The quantity and value of royalty deals has been increasing and accelerating and we believe that the business can grow returns and become increasingly profitable, particularly at a time when the availability of funding to the sector may be increasingly challenged.

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Importantly, from a portfolio perspective, this is nicely diversifying. It carries less individual drug risk and potentially higher levels of profitability than drug companies typically offer.

Outlook
At Baillie Gifford, we are fortunate that our partnership structure allows us to focus on the structural changes taking place in the world today.

We believe many of these to be of greater importance to returns over meaningful time horizons. For example the world's transition from fossil fuels to renewable energy sources is of systemic importance and offers a wide array of opportunities not only directly in the energy sector, but in industries which will play an important part in facilitating this transition.

Monks already has investments right across this value chain from miners to electric vehicle manufacturers, and recently invested in a company called Nexans, a French cable manufacturer, part of whose business is to install cabling from offshore wind farms to connect them to the grid.

Elsewhere, another change we are excited about includes the potentially profound changes being driven by companies unlocking inefficiencies in the healthcare system.

Monks has meaningful exposure to several such companies, and last year invested in a company called Certara which builds biosimulation software, which simulates the effect of drugs on essential organs. This has the potential help companies move drugs through the requisite trial phases and to approval much more quickly.

In summary, whilst recent months have been challenging – volatility is part and parcel of long-term investing.

The growth prospects of the portfolio are strong, and we remain mindful of the importance of structural growth drivers, despite near-term cyclical headwinds. We believe Monks' active, stock picking approach is well placed to take advantage of the market's volatility.

Indeed, we are excited about the growing shopping list of companies that we are ready to invest in when the time is right and believe that the portfolio has the potential to deliver attractive returns for Monks shareholders long into the future.

Annual Past Performance to 30 June Each Year (%)

	2018	2019	2020	2021	2022
The Monks Investment Trust PLC	22.1	9.5	15.3	30.2	-32.1
FTSE World Index	9.4	10.4	5.8	25.5	-2.8

Source: Morningstar, FTSE. Share price, total return in sterling.
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— The Trust invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.

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