UK EQUITY CORE
Q2 INVESTMENT UPDATE

Investment specialist Kathleen Hunter and investment manager Iain McCombie give an update on the UK Equity Core strategy covering Q2 2023.

As with any investment, capital is at risk. Past performance is not a guide to future returns.

This communication was produced and approved in July 2023 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

Kathleen Hunter (KH): Hello everyone, and welcome to our UK Equity Core update. My name is Kathleen Hunter, a client director in the team, and I'm joined by Iain McCombie, who's head of our UK Equity Team and lead portfolio manager on our UK Equity Core strategy.

Just as a reminder, our UK Equity Core strategy is looking to identify some of the best growth businesses in the UK and invest in them for at least five years. So, over the long term.

Iain, shall we start with a bit of a scene setter? So, if we look at performance over the past quarter we have marginally outperformed the index. But how would you characterize the market over the past few months?

Iain McCombie (IM): Well, Kathleen, I mean, the market only fell by half a percent. So really, the market didn't really move in the quarter, so there wasn't really much to comment on. Which I think kind of captures that really nothing much really happened in the quarter. But what's interesting is if you look at the headlines of the papers or you read the news, it's all doom and gloom about inflation and interest rates and sluggish economic growth in the UK, and it all sounds very bearish and very gloomy.

But, I think actually, if you step away from that and actually look at what our companies are doing now, not to downplay that there are challenges out there, clearly there are, but there's a lot of good things happening now.

For example, we visited AutoTrader down in Manchester where they're based. This is the car platform/portal, and they're developing some very interesting ideas about how they can grow their market, not just in the second-hand car market where they're very dominant, but potentially in the new car market, which is very exciting.

And then there's the example of Ashtead, the plant hire business, which again we visited probably in March over in America, where they're getting some tremendous success in renting out new areas, which traditionally haven't been rented out before. Things like, you know, you might think not very exciting things like equipment for cleaning floors. Now you think, why is that a great business? Well, it is because the demand for that, for big warehouses, particularly people like, e-commerce players, is big and therefore they don't want to own this stuff, they just want to rent it. So actually, this has proven to be a very lucrative market.

And why that matters is that when you're looking for growth businesses, growth businesses that can find new markets that people hadn't thought of before, that's really exciting. And those are two examples of companies where they're growing their markets. There are probably some cyclical pressures, but we really believe in the long-term prospects.

KH: Excellent. It sounds like some really interesting growth opportunities for our existing holdings.

I'm shifting gears slightly, so there's been quite a lot of media coverage over the past few months around an FCA consultation on UK listing reforms. And I know that you have been working very closely with our ESG analysts on reviewing the consultation and feeding back our thoughts. So, I was wondering if you perhaps could give us a bit of colour on that process, and perhaps some key takeaways?

IM: Sure. I think it's incredibly important. It may sound like a very dry topic, but I think for anyone who's interested in the UK stock market, and that doesn't just mean whether you're investing in it in through the UK core strategy, but anyone, any kind of citizen or taxpayer, having a good functioning UK stock market I think is important.

So actually, we were very interested in what the FCA had proposed, and we went through it in a lot of detail, and myself and my ESG colleagues who work with us on the UK team, we've spent a lot of time on this because we think it's really important. And in short, what the proposal was saying is why can't we relax some of the rules, almost make it a bit more American-like in style.

Now, you might think because we want to have growth companies coming to the UK and encouraging growth investing in the UK, that we'd be all for that. But actually, when we looked at the detail, we were very uncomfortable with it, and we've actually written back saying we don't actually agree with a lot of the proposals.

Why is that? Well, I think one of the key things the proposal was trying to do was to reduce shareholders' rights. Now, I think actually that one of the great strengths of the UK stock market is that shareholder rights are very well protected. And actually, we don't think that this would be a very useful thing to do. And actually, we shouldn't be giving up our clients' rights lightly, in our opinion. But equally we wanted to be positive and proactive in what we said, and we said, actually one of the big things that we take away when we speak to companies, as you know, Kathleen, we spend a lot of time speaking to management teams and chairmen and so on, trying to understand the company but also what the big issues are, and one of the big issues that everyone is talking about is the growing burden of governance that a listed company in the UK has to comply with. You can see that now in the length of a lot of these annual reports. I mean, basically you almost need to go to the gym to lift up some of these annual reports. They're huge and quite frankly, a lot of the stuff is in them is just rubbish because nobody reads it. And what we have said is, I think you need to review that, perhaps you should get back to principles rather than lots and lots of rules. That's how a good, well-run company should be doing, thinking about the broad principles rather than lots of tick boxes, and actually that's one way to try and make the UK a more attractive place for people to have their business.

Another thing we suggested was actually looking at tax simplification. Now that's not saying we should cut taxes necessarily, it's just saying actually, the only people who win from complex tax are the lawyers and the accountants, and actually it makes everyone else's life a lot more confusing. And I think having tax simplification at the heart of what the government is doing would be a very attractive thing too, to make it more attractive for companies.

KH: Interesting. Well, it certainly sounds like we'll be hearing a lot more about this in the next few months. If we move on to portfolio activity. Turnover over the last quarter and indeed the last year has continued to be low, reflecting our long-term approach. However, we did announce at the end of the quarter that we were closing our BG British Smaller Companies Fund, which the UK Core strategy invests in.

So, are you able to share with us how that will affect the UK Core strategy, and are you able to share any details on what you plan to do with the proceeds?

IM: Sure. Well, first of all, does it have a big impact on the UK Core strategy? No. The holding in that fund is about 3 per cent of the UK Core strategy. So it's not a big deal. And what will happen is when we get the proceeds, when that fund is liquidated later in July, we will look to reinvest it.

Now I'm afraid Kathleen, I'm not going to tell you or anyone else listening what we're going to be doing with the investments yet, because obviously that would be giving everyone a bit of a front run to what we're going to be doing. But you can be reassured that we're thinking quite hard about that at the moment, and I'd imagine we'll be reinvesting in some of our holdings that we like, and possibly one or maybe two new holdings as well.

But to your other point about portfolio turnover, which I think is really important. Another reason why portfolio turnover is low is because we have a strong conviction in the portfolio.

You know, we spend a lot of time thinking about that and we've been visiting a lot of our companies. And despite the kind of the choppy economic backdrop, we feel pretty good about the companies. We're not saying there's going to be challenges for some of them, but the long-term prospects for a lot of them look really good and we're very happy with the portfolio. That's why we're not really changing it very much, and because we think it's very attractively rated, I should say.

KH: Excellent. Well, are there any final messages you would like to leave us with today before we wrap up?

IM: Well, hopefully everyone has a great summer. But I think the thing I would say from looking at the strategy, is that the team will continue to do what we've always done. We're looking for new ideas. We're reviewing existing holdings to make sure that the long-term prospects are good. And we're feeling pretty upbeat about things, which is a very strange thing for Scots people to say. But actually, we are feeling confident about the portfolio. We believe in the management teams that we're backing here, and that comes back to the point that we, and people have heard us say this before, but we think that share prices follow the fundamentals. We think the fundamentals of the portfolio are really good, we think the ratings are attractive on a long-term basis, and therefore we hope that that will lead to better performance in the coming years.

KH: Excellent. Well, thank you very much, Iain, and thank you, everyone, for joining us today.

0823 UK Equity Core Q2 update
57613 10030589

Annual past performance to 30 June each year (net %)

	2019	2020	2021	2022	2023
UK Equity Core Composite	-2.9	-13.8	39.1	-24.8	14.8
FTSE All Share	-3.1	-15.5	35.8	-10.6	12.9

Annualised returns to 30 June 2023 (net %)

	1 year	5 years	10 years
UK Equity Core Composite	14.8	0.1	3.6
FTSE All Share	12.9	2.3	4.1

Source: Baillie Gifford & Co and FTSE. USD. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite.
Past performance is not a guide to future returns.

Risk factors

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, but is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned.

All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

The images used in this communication are for illustrative purposes only.

BAILLIE GIFFORD

Important information

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Persons resident or domiciled outside the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

Financial intermediaries

This communication is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

Europe

Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018. Baillie Gifford Investment Management (Europe) Limited is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. Baillie Gifford Investment Management (Europe) Limited is also authorised in accordance with Regulation 7 of the AIFM Regulations, to provide management of portfolios of investments, including Individual Portfolio Management ('IPM') and Non-Core Services. Baillie Gifford Investment Management (Europe) Limited has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. Through passporting it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions ("FinIA"). The representative office is authorised by the Swiss Financial Market Supervisory Authority (FINMA). The representative office does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

0823 UK Equity Core Q2 update
57613 10030589

Hong Kong
Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 and a Type 2 license from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Telephone +852 3756 5700.

South Korea
Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

Japan
Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

Australia
Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a "wholesale client" within the meaning of section 761G of the Corporations Act 2001 (Cth) ("Corporations Act"). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this material be made available to a "retail client" within the meaning of section 761G of the Corporations Act.

This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

North America
Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

South Africa
Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

Israel
Baillie Gifford Overseas is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This material is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.