Baillie Gifford™

UK Growth Trust: manager insights

July 2024

Iain McCombie, Co-manager of the UK Growth Trust, explores the trust's investment philosophy and the resilience of its growth-focused portfolio in challenging markets.

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

Iain McCombie: Hello and welcome to this annual update on the Baillie Gifford UK Growth Trust. My name is Iain McCombie, and I co-manage this investment trust alongside my colleague Milena Mileva.

The UK Growth Trust is a concentrated, long-term, actively managed investment trust consisting of a portfolio of what Milena and I consider to be some of the best British growth businesses. What does that mean in practice? We aim to identify high-quality companies that enjoy sustainable, competitive and cultural advantages and, therefore, have the potential to deliver superior earnings growth over many years. We then hold onto them long enough for their unique strengths to emerge as the dominant influence on share prices.

Performance:

The past few years have been challenging for growth investors, particularly 2022. Why? Top-down, macroeconomic factors such as higher inflation, rising interest rates and geopolitics have all been critical in driving share prices, and this has been at odds with our style of investing.

The board rightly asked us to thoroughly review our long-term performance. Whilst the main reason for underperformance has been driven by our growth style being out of favour, some of our stock picks haven’t worked either. However, mistakes are a fact of life for investors, and importantly, the frequency of them hasn’t changed.

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Regardless of performance outcomes, we continually strive to become better investors and seek to ensure that the inputs we use to help inform our investment decisions are as robust as possible. One example of a recent process enhancement has been our decision to carry out in-depth site visits to help test our levels of conviction.

Reflecting on the most recent 12-month period to the end of April 2024, performance has lagged the broader index.

St. James's Place was a key detractor. The wealth manager experienced an unexpected charge against profits which led to a lurch down in the share price. We have spent a lot of time engaging with the management team on this and the broader regulatory environment. Whilst there is a lot of uncertainty there at the moment, the valuation may be capturing that.

Elsewhere, concerns about the health of the Chinese economy impacted the shares in Genus, Prudential, and, to some extent, Burberry. While painful in the short term, we believe there remains a long-term growth investment case for these companies, and we are patiently sticking with them.

On the positives, Auto Trader delivered excellent operational results which was reflected in the share price. The online car marketplace attracted a record number of consumers to its platform, meaning that it is now 10 times larger than its nearest classified competitor. It has continued to make good progress with the roll-out of its new transactional product, Deal Builder. This is encouraging as we expect the adoption of this product to help significantly expand the company's addressable market over the long term.

Lastly, Wayve, currently our sole unlisted investment, performed very well. The value of the autonomous driving technology business increased substantially following its latest funding round, in which a significant sum of new investment was raised at a higher valuation.

Portfolio update:

In terms of activity, portfolio turnover remained very low at only 5 per cent so, we have definitely not been churning the portfolio. Why not? We remain convinced that the companies we own are undervalued, therefore we have been leaning into share price weakness, especially in cases, where there has been short-term cyclical issues. Great examples here would be Kainos, Genus and AJ Bell, which have strong long-term fundamentals, however, cyclical issues have somewhat obscured the long-term earnings power. So, we have been adding to those.

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We also took a new holding in the online card retailer, Moonpig. It has a fantastic competitive position, with a 70 per cent market share in the growing online greeting cards market and a large base of potentially very valuable customers. It is investing a lot in data science, and we think this should hopefully drive significant value creation from its large existing customer base.

Outlook:

We continue to see an abundance of significant and unrecognised potential in the portfolio. We see it in long-standing holdings like Auto Trader, Experian and Ashtead which have been working successfully to expand their already substantial market opportunities and are embedding themselves ever more deeply into their customers' businesses.

We also see it in long-standing holdings such as Renishaw and Genus whose unwavering commitment to research and development spending, we believe, will yield significant results in the coming decade by enabling manufacturers and farmers across the globe to solve some of their most pressing productivity and sustainability challenges.

Overall, despite the tough few years, and we do appreciate that we've tried fellow shareholders' patients, we really believe in the portfolio and are excited by its future growth potential.

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Annual Past Performance to 30 June 2024 each year (net %)

	2020	2021	2022	2023	2024
Baillie Gifford UK Growth Trust PLC	-2.5	31.7	-35.1	11.1	6.6
FTSE All-Share Index	-13.0	21.5	1.6	7.9	13.0

Source: Morningstar, FTSE. Share price, total return in sterling. Returns reflect the annual charges but exclude any initial charge paid.

Past performance is not a guide to future returns.

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The specific risks associated with the trust include:

- Unlisted investments such as private companies can increase risk. These assets may be more difficult to sell, so changes in their prices may be greater.

- The Trust can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid by the Trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the Trust will make a loss. If the Trust's investments fall in value, any invested borrowings will increase the amount of this loss.

- Market values for securities which have become difficult to trade may not be readily available and there can be no assurance that any value assigned to such securities will accurately reflect the price the Trust might receive upon their sale.

- The Trust's risk is increased as it holds fewer investments than a typical investment trust and the effect of this, together with its long-term approach to investment, could result in large movements in the share price.

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- The Trust can make use of derivatives which may impact on its performance.
- The Trust's exposure to a single market may increase risk.
- Share prices may either be below (at a discount) or above (at a premium) the net asset value (NAV). The Company may issue new shares when the price is at a premium which may reduce the share price. Shares bought at a premium may have a greater risk of loss than those bought at a discount.
- The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.
- The aim of the Trust is to achieve capital growth. You should not expect a significant, or steady, annual income from the Trust.

Further details of the risks associated with investing in the Trust, including a Key Information Document and how charges are applied, can be found in the Trust specific pages at www.bailliegifford.com, or by calling Baillie Gifford on **0800 917 2112**.