

# Schiehallion manager update

April 2024

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Investment managers Peter Singlehurst and Robert Natzler give an update on portfolio performance and market outlook. Join them as they explore 2024 investment trends including AI, technology, and venture capital.

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

**Rachael Callaghan (RC):** Good afternoon everyone, and good morning to our shareholders on the other side of the Atlantic. Welcome to the annual Schiehallion Fund update. I'm Rachael Callaghan, an investment specialist in our private companies team.

For today's Schiehallion webinar, I'm joined by the chair of the board, Dr Linda Yeuh, and the managers of the fund, Peter Singlehurst and Robert Natzler, who will give an overview of the past year, including performance and portfolio activity, what we're seeing in the market, and a look forward to the year ahead.

We have about 45 minutes today and we will leave plenty of time for Q&A, so I encourage you to use the Q&A function within Zoom to submit your questions. Now I'd like to introduce Linda Yueh, the Chair of the Board, and hand over to her to say a few words. Thank you.

**Linda Yueh (LY):** Thank you very much, Rachael. Just three quick things for me to kick off the webinar.

Firstly, I'm absolutely delighted to welcome you all to this update. It's been an interesting year, and I think you'll find the update to be really informative per usual. And secondly, I wanted to thank you as shareholders, long-term shareholders who are with us as we invest in transformative companies that could reshape our society.

And this capital allocation decision really does, I think, matter increasingly in the world in which we live, which is lots of interesting developments. I've returned from Silicon Valley and met some companies, and it's just an absolutely exciting time. And then third, it's just my role to hand over to Peter and Rob.

So with that, have a good webinar, and I might see you towards the end.

**Peter Singlehurst (PS):** Thank you, Linda. And thank you, everybody, for joining today.

So, Rob and I are going to talk for 15 or 20 minutes at the start of this webinar, and then hopefully have lots of time for question and answer. I'm going to start by talking a little bit about three topics, the performance of the fund, some of the operational progress within our companies, and also recent activity post the year end.

I'll then hand over to Rob to talk about what we're seeing in the broader market, as well as the pipeline of opportunities that we see for the Schiehallion Fund.

So, starting off on performance. Over the course of the year just ended, the net asset value of the fund declined by 0.9 per cent. This was really a tale of two halves. We saw underwhelming performance in the first half of the year, but then we saw a strong bounce back in the second half of the year.

Positive contributors to performance came from both public and private holdings within the fund with some particularly strong performance from some of our public holdings. Notably Affirm which increased by 408 per cent in value over the course of the year, Oscar which increased 272 per cent over the course of the year and Wise which also increased by 64 per cent over the course of the year.

Within the private part of the portfolio, we also saw some strong operational performance and notable increases in carrying values for companies. We saw SpaceX increase materially on the back of a substantial tender offer that they did, increasing the carrying valuation of the company. And we also saw Bending Spoons, which was a new investment in the year, but which did a follow-on round further on in the year for the back of strong performance, also increased materially.

Of course, there were also some negative contributors within the fund. These were largely from some of the private companies which were not performing as we would have hoped. We saw a complete write off of our investment in Convoy, the digital truck broker, which closed down operations over the course of the year. And we also saw continued poor performance from Indigo Agriculture.

When we look at the performance in aggregate and at the operational statistics for the fund as a whole, we take great comfort from the continued strong growth that we see within the fund as well as improving gross margin, operating performance and declining cash burn statistics within the fund.

At the top 20 companies within the fund, average growth rate was about 40 per cent. We saw continued strong gross margins, and we saw improving trends towards profitability. The strong performance was even more notable at the very top of the portfolio.

Within the top five holdings in the Schiehallion fund, we saw top line growth of 48 per cent on average, with each of these companies being cash flow positive for the year. When we step back and look at the wider fund, about a fifth of the portfolio is invested in companies that are already profitable at an accounting level, and less than 10 per cent of the fund has less than 12 months of cash runway, signalling a very strong set of balance sheets within the fund and good progress towards profitability within the portfolio companies.

Overall, we see this as being a strong, robust set of companies that's delivering what we hope to achieve for Schiehallion shareholders, which is a set of strongly growing businesses that will drive growth in net asset value over the long term.

To pick out a few individual companies, we saw strong performance from, as I already mentioned, Bending Spoons. This was driven by good integration of Evernote, the productivity application which they acquired at the start of the year. This integration went very well, they continue to grow that asset and are driving it towards profitability as well.

Additionally, they completed three further acquisitions since then. They acquired Mosaic, a set of applications from IAC Group, an application called Meetup, and just recently they closed the acquisition of a company called Steamyard, continuing to build out their stable of applications. We see a continued strong pipeline of acquisitions for Bending Spoons and remain very optimistic about the outlook for that company.

Epic Games was another company that showed good performance in the course of the year. Not only did they release their Lego world following a partnership and equity investment from the Lego family office, but they also struck a very big deal with Disney. This is significant because it will bring a wide range of intellectual property into the Epic world, as well as an equity investment from Disney.

The thesis behind Epic is driving towards an open, digital, synchronous world with a wide range of IP that will appeal to an ever greater range of users. And we're already starting to see some very positive momentum in terms of user and revenue growth off the back of these developments.

Additionally, Epic also launched their Unreal Editor for Fortnite, giving creators the ability to make high quality video gaming content within the Fortnite world. And this has led to a substantial growth in user generated content within Epic's worlds.

SpaceX also continued to make significant progress on the development of their next generation of rockets, the Starships. Now these had two launches over the course of the year, each going further and further of successive launches, and with SpaceX continuing to learn more about the performance of these rockets in space.

They also saw strong growth in terms of users as well as the overall constellation for their Starlink platform, which is their global satellite-based broadband service.

ByteDance continued to show strong growth in terms of top line and profitability. Of course, this attracted a lot of headlines off the back of potentially a potential ban of TikTok in the US. Our investment case is very much predicated on the domestic opportunity for ByteDance. And this remains as strong as it has ever been at any point of our investment.

And then finally, Solugen broke ground on their second Bioforge in Marshall, Minnesota, a significant step in continuing to scale up the production of biologically-based, high-value speciality chemicals. We also see over the course of this year potential for at least two IPOs within the portfolio. One of these is publicly announced.

Flix is intending to carry out an IPO this year. Flix is Europe's leading operator of bus routes with very strong market positions and strong growth within Europe, but also an attractive nascent opportunity in the US following their acquisition of Greyhound a few years ago.

Over the course of the year, we made two new investments, investing in Oddity and Bending Spoons. We've made six follow-on investments in Databricks, Heartflow, Honor, McMakler, Stripe, and ByteDance.

We completed three sales, one of which was the acquisition of Scopely and we sold our positions in Illumina and Ginkgo Bioworks, both of which were the result of acquisitions of private companies by public companies, which is how we ended up with Illumina and Ginkgo Bioworks shares. We've now exited those positions.

We also reduced one of our public holdings. This was Affirm off the back of very strong performance. We remain enthusiastic about the opportunity for Affirm, and it remains a large position size, but off the back of a substantial increase in the share price, we've decided to take some of our winnings off the table to fund further investments in other companies.

As ever, our valuation team has also been busy this year, as we strive to make sure that our net asset values are as accurate as possible. And as we continue to try to lead the industry in methodologies and robustness of fair value pricing of private companies.

Our [valuation] team revalued 70 per cent of our holdings five times or more over the course of the year, which resulted in 406 changes to carrying valuations, really reflecting our ability to make sure that our portfolio represents as accurately as possible the fair market price of the holdings within the fund.

Touching quickly on recent activity before I pass over to Rob. We've continued to chip away at the buyback that we announced in autumn last year. We've made progress there.

We are not rushing that buyback. We want to make sure that the capacity that we announced will last us some time. And it's probably also worth pointing out that at times we've actually been unable to buy back shares due to the 105 rule, which has meant that we've not been able to buy shares off the back of a rising share price. I won't go into the technicalities of that here, but suffice to say there have been times where we would have liked to have bought back shares, but off the back of the rising share price, we've actually been unable to.

We've not closed any new investments since the end of the last reporting year, but we have agreed to one further investment where we are in the late stages of legal due diligence. That's a company that's based in Europe, very much off the beaten track and we hope we'll be able to share the completion of that investment over the course of this year.

And then just finally since the end of the last reporting year we've seen a modest improvement or increase in the net asset value, which is up 1.8 per cent since the end of the last reporting year. We've also seen a more material change in the share price, which is up 27 per cent since the end of the last reporting year, leading to the discount narrowing quite substantially, and it now sits in about the mid-20s.

With that, I will pass over to Rob to talk a little bit about the broader market update, as well as our pipeline of opportunities, and then I look forward to answering your questions for the rest of the webinar.  
Rob, over to you.

**Rob Natzler (RN):** Thanks, Peter. So over the last two years, we've seen low rates of deals happen in the venture capital-backed space. However, over the last quarter, we began to see that thaw, and that thaw has interesting characteristics.

On the one hand, you have venture capitalists who are under pressure to deploy money that they raised within use it or lose it funds. On the other hand, they remain bruised at the individual level by the experiences of the last two years. Risk adversity is therefore running high. And in venture capital land, that manifests with very high prices being paid for fashionable deals where they can see other people herding in, whilst companies that have a bit of hair on them or a bit controversial or a bit off theme struggle much more to raise capital.

The result is a bifurcated market with a hot sector around themes like cybersecurity, defence technology, India as a geography, and of course, AI, where pricing multiples are approaching 2021 levels, but otherwise a market where companies are now being forced to readjust their valuation expectations away from where capital markets generally were at in 2021.

So where are we spending time as a team? Well, like all of our peers, we are taking the opportunity to really invest in understanding the latest technology. We've now spent time with companies at every level of the AI stack, from the hardware designers to the server farms to the model owners, the model trainers, the open-source model aggregators, the data providers, and then the end applications.

Our tentative thesis as stands biases away from the middle of that stack and towards the ends, the hardware that enables NVIDIA and other ecosystems, and then the end applications that deliver the results of AI to users in a context relevant way.

We've also spent time with our longstanding relationships in India, several of whom have remarked to us that they've met more American VCs in the last five months than in the previous five years. And we've focused down on understanding the China plus one supply chain shifts, as well as spending time with the main names in digital defence.

However, hopefully unsurprisingly, we've made sure that the team is also spending time away from these highly fashionable areas. If you look outside the current hype topics, you see a lot of interesting areas developing.

E-commerce is now getting back on track following getting a bit ahead of itself during the pandemic. There are signs that companies are really solving some of the problems in return rates and in peer-to-peer logistics that have made some parts of commerce hard to access for online companies.

We're seeing robotic automation in manufacturing and warehousing come on in leaps and bounds as robots can now be deployed into mixed robot-human spaces without having to do a large amount of mapping in advance.

Latin America, the strength of which has been highlighted by some of our work on Indian manufacturing, and also, Korea, where there have been some really good corporate governance reform changes, are both popping up more and more inside the pipelines of members of the team.

And then, of course, we're also seeing a much higher share of bootstrapped businesses and all of their wonderful diversity. With bootstrapped businesses, you've got to balance the capital efficiency that they show with the need for a management team that can still show aggression. But there are many of these names, and we're really going after them.

Stepping back to look at the pipeline in the aggregate, then we find that well over half is generating 50 percent plus top line growth. And I'd expect that number to be even higher when we think about subsequent diligence steps, given the profile of the kinds of companies that we're drawn to.

More than a third is profitable, which is, I think, both a sign of where we're seeing bootstrapped businesses that have had to be profitable, but also the fact that this is more and more being taken as the standard for companies that want to raise capital in the VC-backed market as well.

The only other dynamic I'd pull out in terms of broader market backdrop that's influencing how we're thinking is the amount of pressure that peer and competitor venture capitalists are being placed under by their clients to return cash from limited life vehicles. This is resulting in a very liquid secondary market of names.

There's forced selling behaviour, frankly, in the most liquid names. We're very aware that that creates a bit of a buyer's market. So we want to remain disciplined when we think about where we might be selling holdings.

And indeed, we want to be opportunistic where we're seeing prices of things we want to add to getting totally out of line with fundamentals. And Peter's already flagged the ByteDance addition from last year as an example of where we saw that. That said, we are exploring using these more liquid private secondary markets as a potential exit opportunity for a small number of the names in the bottom of the portfolio.

More practically, we're also seeing lots of companies out there that have excellent customer retention profiles, very, very sticky super-fan users, and frankly, miss-sized cost bases. So good fundamental products, but built-in companies funded by VC that are just going to really struggle to ever produce cash flow.

And what we're hearing from our peers in the market is that the private equity buyers you'd normally expect to pick up these kind of businesses are just not interested in those loss-making businesses at the moment. We think that creates a potentially very rich hunting ground for tech-enabled acquirers, Bending Spoons within the portfolio, of course, being one of them. And we wouldn't be surprised to be seeing more activity there, both in the pipeline and in the market in general in the coming year.

I'm aware that's been a bit of a whistle-stop tour around what we're seeing in our pipeline and around what we're seeing in the market at large, but hopefully that's helpful colour and a good place to jump off from into QA.

**RC:** Great thanks, Rob and Peter. As they've both said please keep your questions coming in through the Q&A chat function. Just one that we had ahead of time, Peter, was about the cash resilience within the portfolio, which you touched on a little bit, but also at the portfolio level in general, what's the cash remaining and what are you thinking about in terms of allocating that capital?

**PS:** Yeah, so maybe just taking the resiliency within the holdings and then how we think about capital allocation within the fund in that order. So within the overall Fund, I think there is a few things that are worth pointing out, some of which Rob and I touched on already. There are a decent slug of the portfolio companies that are either profitable at an accounting level or are cash flow positive.

Now it's worth noting these are two different things. Some companies can be cash flow positive, but might be loss-making at an accounting level. I think really it's the cash flow that matters. Ultimately cash is king. And so we tend to focus on the cash flow dynamics within businesses.

All of the top five companies are cash flow positive. I believe four out of those five are profitable at an accounting level. And roughly a fifth of the overall fund is in companies that are profitable at an accounting level.

Within the broader fund, what we've actually seen is maintained cash runway over the course of the year. Now, everything else being equal, you would actually expect cash runway to decline just as companies moved through time and into those cash runways. And so the fact that we've seen cash runways be maintained speaks to the operating leverage that we're seeing in the portfolio companies.

But I think it also speaks to a greater degree of cost discipline that we're seeing, not only within our portfolio, but within the broader market. Even companies that are executing well and growing well are taking a hard look at their cost bases.

Many are looking to trim that, which is having the knock-on effect of extending cash runways. And as a result, there's only one-tenth of the fund that is invested in companies that have less than 12 months of cash. Now those that have less than 12 months of cash, many of those will likely raise or where they can't raise they will look to take further cost-cutting measures.

With regards to the cash remaining in the fund, I believe at the end of the reporting year we had about 14 per cent of the fund remaining in cash and T-bills. Now naturally it's important that we reserve a good deal of this remaining firepower in the fund for supporting the existing portfolio and concentrating capital into high conviction names. Some of that cash will also be used for the buyback program that we've announced. And then, of course, there is the opportunity to make, selectively, a number of new investments.

Now, the way that we think about this is that each of these are strings to our capital allocation bow. The right thing for shareholders is to make sure that we use each of those different options, existing holdings, new holdings and buybacks, as a bar for each of the others to make sure that we are appropriately allocating shareholders' capital in the highest possible way across those three tiers.

**RC:** That's great. Thanks, Peter. Sorry, this one's probably aimed back at you as well. You stated that the average sales growth is around 40 per cent. Can you comment on the spread of that? Are the figures skewed by one or two companies or is the growth relatively spread across the portfolio?

**PS:** Yeah so it's relatively evenly spread it's not the case that we have one company that's growing at a thousand percent and everything else is growing much slower it's relatively evenly spread and of course there are companies in there that are struggling operationally, where they're materially lower in some cases going backwards and then some that are materially above that 40 per cent. But the skew is not extreme.

**RN:** I can give a couple of numbers on that, if that would be helpful. If you take a weighted average by the capital deployed, within the top 10, the weighted average revenue growth is about 40 per cent. It's 39 and a bit. Within the top 15, it's more like 42 per cent. And within the top 20, it's 39.8 per cent. So, you've got a really stable level of that spread across those different slices.

**RC:** Great. Thank you, Rob. We've also had a question come in on any updates that you can provide on some of the poor performing companies like Masterclass, Blockstream and Allbirds.

**PS:** I mean, Allbirds is probably the easiest one to comment on, just given that that is a public company. What we're able to say with regards to the private companies in the form of Masterclass and Blockstream would be more limited just given that those are public companies.

Allbirds is very frankly an investment that has not worked out for us. The share price has come back materially post IPO. I think they've really struggled to expand their product assortment. I don't think they executed well into apparel. And as a result, the company is going backwards in terms of revenue growth.

They've made strides to control their cost base, but that cost base is still too high. So Allbirds has not been a good investment for us. And I think in the medium term, what we have left in that is we would view as a source of cash for new investments.

I'm going to refrain from commenting on Masterclass and Blockstream just given the nature of the financials on those companies and the non-disclosure agreements, but I think that it will be clear to shareholders given the write-downs in these companies that they're not executing as we would have hoped and as a result become smaller holdings within the fund.

**RC:** Thanks, Peter. Linked to that, there's two questions. I'll just break them out because one of them follows on quite nicely to your comments on Allbirds. This shareholder would like to get an understanding of your thinking of holding companies held in the portfolio once they IPO.

**PS:** So, the approach that we take within Schiehallion, since we launched the fund and the approach we've always articulated to shareholders is that we approach holding decisions from the basis of maximizing the value of investments. Now, I don't think Rob or I are particularly good at forecasting which bits of the value will accrue whilst companies are private and which companies will accrue whilst they're public and so once companies go public if we still see that road to a five times return on our investment, we will continue to own those shares and that's why you see us continuing to have holdings in the likes of Wise and Affirm. That being said, those public investments over time will also become sources of cash for further investments.

These might not necessarily be binary decisions, a sort of complete sale or a continued hold of all of our shares. It might be that you see us trim holdings to fund investments. And you saw us do that with Affirm at the



start of this year or the end of last year, where we trimmed the holding back, I think it got up to about seven and a half percent of the fund. We liked Affirm, but we felt that that was too large a position. And so we trimmed it back to about a 5 per cent position. And naturally, that gave us a source of cash to fund other investments.

**RC:** Great, thanks Peter. You mentioned as part of your opening remarks about upcoming IPOs, we've had a question more broadly about do we think the hiatus in the IPO market is now coming to an end or is it likely that companies will continue to stay private for longer as has been the case in the last couple of years?

**PS:** I think that the IPO market is always open for good companies. We saw that last year at a time when most people said that the IPO market was closed, we saw Oddity go public from our portfolios.

Oddity was a company that was and is continuing to show very strong top line growth, as well as good profitability. And it had a successful IPO during a period where the IPO window could well have been termed to be closed.

I think it's important to say the IPO market is not going to go back to the highs of 2021, nor should it. We think that there will be companies in our portfolio that will IPO this year.

I mentioned Flix, and there's one other which has not yet publicly announced their intentions to IPO, but we see having a good chance of having a successful IPO.

Ultimately, what really matters for the long-term value of our holdings is operational performance. And provided we are seeing growth and progress towards profitability, or growth in profitability for those companies that are already profitable, whether the companies are listed or not listed is of secondary consideration. The key value is, the key question is are the fundamentals of the business driving the increase in the value of the companies and by extension the fund.

I think it is quite plausible that more companies will continue to stay private for longer. We see Epic as an example of a company founded in 1992 that is still private and is probably not going to IPO in the immediate future.

I was speaking to a company recently that was growing very quickly, was highly profitable. This is a company in our pipeline, not a company that's currently in the fund, and was musing as to whether it made sense for that business to be public at all.

The strength of the Schiehallion Fund is that the evergreen capital enables shareholders to benefit from companies staying private longer and continue to benefit from the growth in the value of those companies.

And so whilst it's nice to see companies go public in terms of the validation of our carrying values, and also to give us some liquidity to reinvest into other opportunities where we see those being more attractive than those companies that have gone public, it really is of secondary importance to the operational progress and performance of the underlying holdings.

**RC:** Great thank you, Peter. We've got one question here on skin in the game. Baillie Gifford has a good track record of managers owning and investing in their own funds. To the extent that you're willing to share as the managers, perhaps this is slightly unfair, so you can answer it how you like. As the managers what percentage of your investable wealth is invested in Schiehallion?

**PS:** I couldn't tell you the exact percentage. What I can tell you is that a substantial proportion of my own investable wealth is invested in Schiehallion.

**RN:** I can't say the same. That's something that I'm hoping to change.

**RC:** And we have a question here on China. So can you talk about trends you're seeing with holdings in China and the potential opportunities there?

**PS:** Rob, do you want to take this one?

**RN:** Yeah, I'll do the macro one first and then how we're dealing with it, I think. There's been a lot of American funds in particular that have been doing forced sales getting out of China.

When we talk to peers in the market, the only people we see who are really leaning in at the moment are the sovereign funds from the Gulf area. The prices you get in the market there are very attractive on a company-by-company basis. You get rapidly growing companies at 10 times EBITDA or stuff in that region. And indeed, in the case of ByteDance, it was even more attractive than that because of the forced selling behaviour.

At the same time, we have to be really aware of both the deterioration in local regulatory transparency. I still think China has a comparative advantage over some other emerging markets when it comes to governance, but that comparative advantage has been lessening over the last couple of years. And we have to take very seriously what we're hearing from contacts inside both China and the Western world's political bodies around deteriorating relationships.

The way we're trying to manage that at a fund level is by thinking about the correlated go to zero risk across all of our Chinese holdings in the same way as we wouldn't be wanting to go out and place a very high percentage of the fund in a single stock because it might go to zero and really damage returns. We wouldn't want to have a very high percentage of the fund in a geography where there's a genuine go to zero chance that's going to be correlated across all the names we hold.

The way we've set that for China in pencil has been 10 per cent. That's the limit beyond which we begin feeling really uncomfortable. And right now we're at 7.7 per cent, the last I checked, so still below that.

There are some fantastic Chinese companies out there. We've got a couple that are being worked on at the moment by colleagues, one in Edinburgh, one in Shanghai, and there may well be more.

China is driving a lot of the progress that we're seeing in the climate transition around the costs, not just of batteries, but also of photovoltaic panels, which are themselves absolutely critical to building enough AI data centres without overwhelming Western grids.

We see expertise in the Chinese supply chain. It's not just a cost story. It's also a skill story. And that turns up in industries ranging from automobiles to textiles. And whilst China is not really in the game when it comes to cutting edge chips, you can do an awful lot at the lagging edge and they are.

So it remains a really powerful economy. I think it's one that as an international fund we can't ignore. But right now we are trying to manage the risk of our exposure at the portfolio level in that way. I hope that answers what you're driving at.

**RC:** That's great. Thanks Rob. We've got one question here saying you alluded to selling some smaller holdings in the portfolio. Can you expand on that?

**PS:** Yes. So I mentioned three holdings that were sold over the course of the year. One was Scopely. That was the result of an acquisition of the business. I would have gladly held on to our shares in Scopely, but the company was sold. It was a good investment for us overall and for shareholders.

We also sold two other holdings. Those were shares in Illumina and shares in Ginkgo Bioworks. To give a little bit more context to each of those, the shares that we held in Illumina were the result of an investment that we had in Grail.

Grail is a liquid biopsy company that had developed technology to be able to very accurately diagnose and identify and screen for cancer through a simple blood test. We invested in that company and it was acquired by Illumina, I think about six months later, for about a 2x uplift. So that was a good investment for us.

The shares that we had in Illumina came from what we were paid for Grail, which was a combination of cash, Illumina shares, and a long-term right to a revenue share on any sale of Grail tests.

The other holding that we sold was shares in Ginkgo Bioworks. We received those shares after the acquisition of Zymergen. Zymergen was a very different investment from Grail. Grail was a good investment and Zymergen was not a good investment for us. It ended up being acquired by Ginkgo Bioworks at a much lower valuation from where we invested.

We actually know Ginkgo very well. Our public teams own it. And for Scottish Mortgage in 2016, it was actually a private investment that was a very successful private investment for us. But we viewed those shares in Ginkgo Bioworks as a source of cash for Schiehallion shareholders. And so we tidied up that position at the same time as tidying up the Illumina position.

**RN:** And if I may, just in terms of the forward-looking remark that I made around the smaller holdings that we might be seeking to sell in private markets, we're at the beginning of seeing a more liquid private secondary market develop.

When I say more liquid, that is a comparative statement, which is still not an absolute statement. It's the kind of liquidity that makes the Schiehallion shares look incredibly liquid. However, we do have a subset of names

where we think a solid thesis remaining in the names that we think that could be a buyer who'd be willing to pick that up, who we can find in a cost effective manner.

And secondly, at the same time, the thesis has changed enough that we're not seeing the fat upside tail that we'd like to see from our holdings. And so in those ones where we've had narrowings of the risk profile, we are thinking there might actually be a chance to do a transaction and generate some cash.

That said, it is a buyer's market out there at the moment. So we're going to be pretty disciplined when it comes to sales price. If nothing else, the process of doing this exploration will help us build a muscle that could very well be useful if we're seeing deeper and more liquid private secondary markets develop over the next five years. So that's the context with which we're exploring it with a couple of the smaller holdings in the fund.

**RC:** Thanks, Rob. That's helpful. Just to build on those three sales, there's a question that ties into those. So what was the average premium to carrying value achieved on the three sales last year? And how is that premium compared to previous years?

**RN:** I can take this one, Peter, if that's helpful, because I've got the numbers up.

So, the three sales we had, two of them were done in public markets, so they were being carried at par. We then had one of them done in private markets, which was Scopely, and that was one which was held at a higher price than it transacted at by about 20 to 25 per cent. That's a stat that has to be understood in the context of general transaction values across the fund.

So, we've had over the period 27 different pricing events where you've had an external transaction value come in alongside one of our holding values. In seven out of those 27 instances, we've seen the actual transaction happen at a price that was below our carrying value. And in 20 out of 27 instances, we've seen that happen at a price that was above our carrying value.

Now, we obviously want that to be not skewed. We don't want to be holding things at too conservative a level or too optimistic a level. The data from the last year suggests that we're erring conservative.

Scopely is one of the examples where we may be erred optimistic. Ideally, we'd have no error at all, and ideally we'd have no skew at all, and that's what we're trying to get the internal valuations to. But at the same time, as I'm sure everyone appreciates, it is much more of an art than a science when it comes to estimating the fair value of these holdings.

**RC:** Thank you, Rob. We've got one question here about the overlap in holdings with Scottish Mortgage.

**PS:** Yeah, so there's meaningful overlap with Scottish Mortgage, but there are also a number of investments that are not held in Scottish Mortgage.

As I'm sure those who are familiar with Scottish Mortgage will know, Scottish Mortgage has been over or close to its limit in exposure to private companies, and so has not been deploying into new private investments over the last couple of years, whereas Schiehallion has continued to deploy.

So in some of the names such as SpaceX or Northvolt, there is overlap with Scottish Mortgage, although it's worth highlighting that the positions in Schiehallion are much larger as a percentage of the fund due to the fact that this is a dedicated private company fund.

But then there are also plenty of names where there is no overlap with Scottish Mortgage. So companies like Bending Spoons or Grammarly are not held within Scottish Mortgage. We can follow up with more precise data on that.

But I would say in general, many of the newer investments that are in the Schiehallion fund are not to be found within the Scottish Mortgage Fund.

**RN:** It's, and we can follow up with the exact, but it's about 20 names that overlap and it represents about 50 per cent of the capital inside Schiehallion is also in companies that are inside Scottish Mortgage but that 50 per cent includes public names that overlap.

And so we can follow up in more detail, but that's kind of the order of magnitude.

**PS:** Thanks, Rob

**RC:** Excellent. That's great. That's come to the end of the questions. So all that remains is me to thank you for your participation in today's webinar and for your ongoing support as shareholders in the Schiehallion Fund. If you have any follow up questions, please don't hesitate to direct them towards your usual Schiehallion client contact and we'd be more than happy to help you. Thank you.

**PS:** Thank you very much everyone.

**Annual Past Performance for the Schiehallion Fund\* to 31 March Each Year (Net %)**

	2020	2021	2022	2023	2024
Ordinary shares	11.4	41.2	2.2	-63.0	19.1
Ordinary shares NAV	2.3	47.0	0.3	-25.0	6.9

Source: Morningstar, share price, total return, US dollar.

\*The Schiehallion Fund was launched on 27 March 2019.

Past performance is not a guide to future returns

**Important information and 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.

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For a Key Information Document for the Schiehallion Fund, please visit our website at [www.bailliegifford.com](http://www.bailliegifford.com)

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