What is private company investing and why do we do it?

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Discover what private company investing is, and why our decades of institutional knowledge of exceptional growth companies gives us an advantage.

Your capital is at risk.

Ben James (BJ): Hello, and welcome to this series of films on investing in private companies at Baillie Gifford. We aim to give you everything you need to know. They're applicable to all clients that invest in our range of trusts and vehicles that hold private companies. I'm Ben James, an investment specialist director that looks after our US Equity Growth and Scottish Mortgage investment trusts, both of which hold significant numbers of private companies. I'm joined by James Yuill and Rachael Callaghan, both from the Private Companies Team.

James is the head of our operations and Rachael is a manager looking after investor relations. Welcome, guys.

Rachael Callaghan (RC): Hi, Ben.

James Yuill (JY): Hi, Ben.

BJ: Let's start with, why do we invest in private companies? Rachael, in the industry, there are loads of different definitions, venture capital, seed investing, angel investing, private equity. We call it private companies. Why do we do that?

RC: I think that's a great starting point, Ben. And largely, it's a case of semantics based on our investment philosophy. We call it private companies at Baillie Gifford because we are not just buying equity. We are investing in private companies and joining them on their journey. We are looking for high-growth, transformational, disruptive companies that just happen to be private. And that means that their shares aren't traded on the public stock exchanges. They are held privately by founders, management teams and shareholders.

BJ: Why did we start investing in private companies in the first place? As we know, but our audience might not know, companies are staying private for longer. In the past, companies would list on the public stock exchange and be able to sell their shares to anyone around. And they would be about seven years old. They're now averaging about 12 years old. And some of our largest private companies at Baillie Gifford are over 20 years old. What happened was there was a lot of money that was allowed to go after private companies because they could hold more shareholders on their shareholder register after some regulation in the US.

And also because of technology, the Internet and so on, they didn't need as much money to grow significantly. Whereas in the past, that wasn't the case. And you see these companies becoming really big, many billions of dollars at a relatively early stage, but able to stay private because there's lots of money being able to invest in them.

JY: Absolutely. It's a whole new ecosystem for growth companies themselves.

BJ: That's right. And we were part of that. We started in 2012. And we were fortunate to realise that we have a range of investment trusts in the UK which are permanent pools of capital, which can hold private companies in them without the risk of a liquidity problem. They could hold them for a long time and support them. That's another reason why we do this, Rachael. And I think that we might have an edge in this. Can you talk about that?

RC: Yes. It's important to remember that at Baillie Gifford, we've been analysing growth companies for over a century. We were founded in 1908. And that gives us an intrinsic institutional heritage that a lot of people don't have. We have an edge in analysing high-growth, exceptional, innovative companies. And I don't just mean in terms of how they can improve profit margins or the business model development or product development plan or how they might expand into different geographies.

Of course, we take all of that into our analysis when we're looking at different investment cases. But there's also the intangible things, whether or not... It doesn't matter if you have all these great business models and spreadsheets if you don't have the willingness and the ability to execute on the business plans that you have. And we have this unfair advantage at Baillie Gifford where we have decades of institutional knowledge on what makes exceptional growth companies work, how they get to the next stage of their growth.

And that comes from strong cultures, good governance structures and really visionary founders and management teams that have the willingness and the ability to push forward into that next stage of growth.

BJ: One of the challenges we get from some clients is that if there's all this new money and a new ecosystem going after private companies, how do we get access? And James, you'll have seen, looking after the shareholder registers of these companies we invest in, that actually, we have quite a good reputation here and are able to get access. Can you talk about that a bit?

JY: Yes. The luxury a lot of these companies have is they can be selective on who is on that shareholder list. It's a much narrower list than you would see for a public company. And what they want is shareholders that are supportive, that are there for that long-term journey. And that doesn't stop when they become public. Having that reputation and knowing that we're long term, that gives the confidence to the companies that Baillie Gifford are a good shareholder to have.

BJ: And what about our structure then also is attractive to these founders in these companies? Because in traditional private equity, what happens when a private company goes to list on the market, goes to an IPO?

JY: It'd sell. Traditionally, either the vehicles don't allow them to hold listed equities for long...

BJ: The managers would sell it. The investors would sell it.

JY: Exactly. The managers will sell and cash out, really, when they become public. Whereas what we're looking to do is to hold them throughout that journey to the point where they've achieved a level of growth and transformation that we believe they can.

BJ: It's quite appealing for founders and people running companies for us to hold it to and through IPO?

JY: Exactly.

RC: Yes.

BJ: And the third reason is because it helps us understand, therefore, how the world's changing. And also, the fourth reason that I will always talk about is the fact that previously, decades ago, it was quite hard to access these great companies. But because of the vehicles that we use to invest in them, we can democratise access to these world-leading private growth companies.

Let's summarise it up. The reason why we do this is companies just staying private for longer. It gives us access to some of the most innovative companies and leaders in the world and improves our networks. It helps us understand where the world's changing and therefore, what we need to invest in and what that might mean for our public companies. And it democratises access to these great private companies for everyone.

RC: Yes, exactly.

JY: Absolutely.

BJ: Thanks for watching this film and look out for other films in the series on investing in private companies at Baillie Gifford.

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