The value of the trust's shares and any income from them can fall as well as rise. Capital is at risk. Past performance is not a guide to future returns.

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For a Key Information Document for the Baillie Gifford UK Growth Trust please visit our website at www.bailliegifford.com

**Hello and welcome to this live programme from Baillie Gifford. The latest in a series of webinars where we talk to the managers of the business' different investment trusts. Today, we're talking to Iain McCombie, Co-manager of the Baillie Gifford UK Growth Trust. Welcome, Iain, thanks for joining me today.**

Hi, Amy, good to see you.

**Let's begin, this is a UK growth trust. We're sitting here in the UK where stocks have lagged their global peers for some time now. Many would consider this discount as a reflection of the growth and innovation on offer here. How are you turning this scepticism to your advantage?**

That's a good question, Amy. I think the first thing is, actually, UK market's performance has actually been improving and I think that's because it's starting to reflect the fundamentals. Despite what you might always hear about the UK, there are innovative companies and there's some really good news stories. A great example of that, one of our biggest holdings is Games Workshop which people think is a niche business. A hobby business and yet, actually, it's a very rich IP business. Very high margins. Really attractive growth potential. It's actually going to go into the FTSE100 now, which is pretty amazing when you think about it and there's opportunities for it to continue to expand its addressable market. It's just signed a deal with Amazon for Amazon to develop a TV series for some of its characters. It's got 30-plus years of very rich IP, which is really exciting. I think that can only be good news for the company.

**That's an example of holding a stock from its small beginnings, humble beginnings, right through to its listing and how your relationship with that is a journey, I suppose.**

Absolutely. As a growth investor, that's what you want. You want to make that shift from small or medium to becoming FTSE100 companies. That, to me, is success and why we're long-term in our nature. We've got relatively long-term holding periods because we want to turn that advantage of businesses that are growing at a faster rate. You want to own them for as long as possible. That's really our style.

**Is that small to mid-cap sector a really fruitful hunting ground for you?**

I think for us, not just for the UK team at Baillie Gifford, but Baillie Gifford more generally, we've always liked this area because it's a lot of small numbers and it's much easier to double when you're a £3 billion company, rather than you're a £30 billion company. Obviously, there are a few, particularly US big tech companies that have been able to do that, but if you look at history, they're the exception not the rule. Where you get the real spot, I think, is finding those businesses like Game Workshop, that a lot of people have never heard of or think it's a bit of a silly game. Actually, when you do your due diligence and actually see what's going on there and get to know the management team that are doing a fantastic job, then you can really see why that business has got a long-term growth runway.

**Our first point is really about how the UK stock market has been deeply unfashionable for some time now. Another big issues, I suppose, to contend with is the issue of investment trust discounts. The industry is waking up to it and in many instances, taking steps to reduce the discount. Such as buying back shares. At Baillie Gifford, along with the continuation vote last year, you've made an announcement to keep the discount to single-digits. Do you want to talk to me a little bit about this dynamic and how this is playing out?**

I think the first thing, Amy, is they're a great advantage of investment trusts and I know there's a lot of people making noise at the moment, that investment trusts don't make sense. I disagree with that. I think one of the first advantages of an investment trust is you've got an independent board of directors that are there to try and look after the interests of all shareholders. To what you're saying there in terms of discounts and buybacks, our board recently put out an announcement that said that they want to keep the discount at a single-digit rate. I think it's sending that message to the market that we don't want the discount to drift out and we're not going to do anything about it. We've been upping our buybacks to ensure that the discount is remaining at that level.

It's not just the discount or buybacks. It's also longer-term points. As you said, we have a continuation vote every five years. It past last year, but we also said we're going to have a one-off continuation vote in 2029, that if we don't outperform over those five years, we'll give shareholders the option of 100% of their money back, less costs, roughly. Also, we're going to have a one-off vote in 2027 to the same extent. I think that's an example of where the board are listening to shareholders, are trying to do what they think is the right thing and myself, Milena, my Co-manager of the trust, we're fully behind that. We think it's absolutely fair for shareholders to have those rights to vote on it. I think that's an example where the investment trust structure really works for shareholders.

**In terms of the discount, as an investor, that can be advantageous.**

If you're a buyer, Amy, you can buy a pound of assets for 90p. I think that's really attractive. I've always been an investment trust buyer for 30-plus years because I think that's a really attractive function of it. Though obviously, what you have to have is a board that wants to manage that discount. As you hinted, that's something that I think the industry has to keep looking at to make sure that we don't let discounts drift out to too high levels. As the UK Growth Trust board have done, is demonstrate what they think is the right thing at the time, for shareholders. I think that's a great option.

**To stay on this point for a little bit longer because I think our audience it going to be interested. The big news is the UK hedge fund Saba Capital, it's all over trade press and national press, it's developed an activist strategy that's seen it take advantage of the near record discounts in the price of investment trusts. It's looking to force through board level changes. Six of the seven trusts, shareholders have voted against the proposals and the last of the seven UK investment trusts targeted, which is Edinburgh Worldwide, that votes this Friday. Can you spend a few moments giving us your take on this drama in the investment trust sector? Perhaps, whether or not you think further action is needed to put this to one side.**

As I said in the previous question, Amy, I think there are a lot of advantages to the investment trust structure and we shouldn't lose sight of that. I'm sure people listening will say you're from Baillie Gifford you're going to be biased towards what you feel about it. I think it's very interesting that the independent voting agencies that the institutional investors often use to analyse the proposals, unanimously said for all the trusts that the proposal that Saba Capital had made was not in their interest and you should vote against it. I think that's an interesting one. So, it's not just me or my colleagues or other firms affected saying that, but that's somebody independent.

As you said, I think even more important than that was the shareholders coming out to vote. I think the real surprise for everyone, including Saba, was how private investors, who traditionally have not really voted very often, when there was something at stake, they came out to vote and voted overwhelmingly, I think 98%, 99% of all people who voted, other than Saba, voted to reject their proposals. Which is overwhelming, but the level of turnout was also very good. I think sceptics from the industry were saying, private investors don't care, they're not going to bother voting. Well, they actually got out and voted in a much higher level than people thought and I think that's a really exciting point that actually, people have got something they care about, they can do it. The platforms, to be fair to most of them, made it pretty easy for people to vote, which I think is great for shareholder democracy.

**It's great to see such an engaged investor base and that this event has only served to galvanise the community.**

Yes. Going back to your point about discounts, it goes back to the board. The boards have got to be very clear what they're trying to do and have they got a strategy and to communicate that to their shareholders. Trying to please everyone all the time is not [marker 10:00] easy. We know that from when I'm trying to invest in companies. You have some people who are wanting the short-term buck and other people who are genuinely saying, I want to invest long-term and the investment trust structure allows you to do that. I think we shouldn't lose sight of that point. If you look at the investment trust sector, if you look at comparing that to open-ended OEICs, I think there's data from some of the analysts in the city have shown that actually, investment trusts for the majority of sectors, actually outperform their open-ended equivalents.

I think the factors that I mentioned earlier, the independent boards, the lower fees, frankly. Also, the fact that you can gear up with an investment trust. You can use borrowings. If you're positive, in the long-run these are all big advantages. Yes, the discount thing's often seen as a millstone for investment trusts, but there are a lot of advantages too and we shouldn't lose sight of that. That's really important, I think, for private investors in particular.

**Let's move on to some of the portfolio activity. At the end of last year, AJ Bell-, staying in this investment territory, AJ Bell was the fifth largest investment in the trust. Just prior to that, in November, you'd exited Hargreaves Lansdown. Can we do a comparison of what's going on here and why AJ Bell is particularly attractive and this area of the investment landscape?**

We bought AJ Bell at flotation and we've added to our position over time. We added to it significantly probably in 2022, 2023 because we could see that the business was really starting to get a lot of traction. To your point, why do you think they were doing better than other people? I think they have the right proposition. It's a good functionality and a very attractive price. They've got a very good management team, in our opinion, that really are focused on both the private investor, but also, the adviser market. That's an interesting mixture of what they're trying to do there. For me, it was just the fact that they've been doing all the right things and they've been investing in their systems. It's just a very well-run business and you're seeing the fruits of that.

Hargreaves, it's been a tricky one. Again, we've owned it for a long period of time. For a long time, it was a very successful business. I think unfortunately, it lost its way a bit and it underinvested. The current management team, I think, were brought in to address that and we've a lot of respect for them because they were trying to do that. It wasn't an overnight story and it was struggling. I think there's still some issues there in terms of its pricing and it's perception that it-, premium prices, but is a product really so much better than AJ Bell? You can discuss that and I think you look at the flows, AJ Bell is growing significantly faster in terms of its inflows, than Hargreaves. That's really why we wanted to buy it because we follow the growth and AJ Bell has been one of the standouts the last two years. We think there's still a lot of momentum behind that. That's the reason why it's one of our biggest holdings and ultimately, that's why we decided to sell out of Hargreaves.

**It's interesting because when you talk about a growth story, there's quite a lot of negative press around the wealth management industry or the future of the asset management industry. There's lots of hurdles in place, but this is here serving as a growth stock within your portfolio. Talk to me about the other side of that.**

AJ Bell have been growing in a difficult market, with a headwind of the consumer under pressure in terms of the cost-of-living crisis. That's been a big issue for everyone in the wealth management sector. They're seeing outflows of-, they've seen gross inflows, but they're also seeing quite a lot of outflows because people are having to drawdown on their investments to fund their lifestyle. That's been a big headwind for the last couple of years, two or three years. As I said, because AJ Bell's proposition has been so compelling, they've actually been able to grow despite that. I still think, longer-term, why we still like the wealth management sector is that people are going to need to save for their retirement.

Even though there's been a short-term headwind, I think the tailwind longer-term, is still very strong for the wealth managers. Ultimately, people like you and I have to invest to save for the future. We can't rely on the state pension to have a nice comfortable lifestyle in retirement. Actually, people like the platforms, I think are really well-positioned to do well longer-term there. I think the long-term story is still very attractive. I think that's one of the things that, as a long-term investor, we're always trying to do is, don't get sucked into the short-term issues. Look at the long-term trends because they're the things that are going to really dominate in the long-run. That really matter to the share price. I think still AJ Bell's in a long-term growth market.

**Short-term cost of living crisis, long-term retirement crisis is what you're playing into.**

Exactly. Yes. The crisis is an opportunity for them, it's not a crisis for them. It's actually an opportunity and they're trying to help people. I think that's one of the other things. They're trying to help people. Educate them and actually, if you don't save, you're going to have a big problem in 20 years' time.

**Another interesting holding is Autotrader. Second hand car sales, essentially. Everybody knows the old manual. This is exciting because it's expanding into new markets and it's moving into car financing. Can you tell us more about why this is interesting?**

It's a dominant player in its market and I keep saying, when I mean dominant, it's almost like 15 times bigger than the number two player. It is the market. Other people try to get into the market and they fail pretty abysmally. That's a great opportunity. I think what I like about the Autotrader management team and Milena and I have gone down to the visit them and know them well. They're not just saying I can sit in that market and harvest it because we get the money from the second-hand car dealers.

They're also trying to think, how can we help that system? When you say they're getting into the car finance market, that's always been there. What they're trying to do is to make it easier for the buyer.

Often, one of the problems for people buying cars is the financing falls through. They've found the car on the website, but then they can't get the finance to do it. What Auto Trader are doing is trying to help that process and take a little cut from it. They're not lending money, just to be clear. They're just taking a commission by getting people preapproved effectively, for finance. So that somebody can go into a dealer and say, I want to buy this car knowing that they've got finance preapproved, which is good for everyone. Certainly, very good for Auto Trader. That's just new revenues for them. Still very early days in this, but intuitively it looks quite exciting. That's what we like about Auto Trader, they're always looking for opportunities to grow their market and use that dominance to help consumers.

I think that's a really important point that it's about trying to help the consumer, ultimately. You can't force stuff down peoples' throats. You've got to be saying, actually, this intuitively makes a lot of sense. This helps me and that's very compelling economics for a business like Auto Trader.

**It's that clichéd idea of having purpose, but you do have to have a real purpose and be solving a real problem. Rather than feeding a saturated market with more of the same.**

Two Brits talking about purpose, we start shifting uncomfortably in our seats, but actually, if we were Americans, we'd be very happy talking about that. I think it's really important. If you look at a lot of the attributes of our investments that have been long-term winners, they do have purpose. It's actually trying to do a really good job for their customers. That's the thing about capitalism. You rarely have a monopoly and if you exploit that monopoly, somebody will come in and probably undercut you. You can't be complacent there and I think having companies with that purpose is really, really important. That's why we spend a lot of time trying to get to know management teams and understanding how they think about these issues.

**Speaking of purpose, I want to move on. In the trust you have a capacity to hold up to 10% in private companies, for which you've just got the one holding which is Wayve. Which is an autonomous driving outfit. Britain's very own. It's very exciting. It's raised over a billion from various backers. High profile backers to develop embodied AI products for automated driving. In layman's terms what is their purpose and why is it an interesting investment?**

Effectively, it's a technology, it's a software. The way I would put it is, probably people have heard about this elsewhere, what other companies and particularly American companies have been doing has been almost [marker 20:00] a rule-based system. They design if you're driving along and you walk in front of the car, the rule says you've got to brake hard to stop it. What Wayve does is something slightly different. It's almost like a neural network. What they do is, they get drivers in different vans and they have relationships with people like Ocado, where they have cameras and they collect the data. Then the data allows the neural network to understand how a driver reacts to things like somebody stepping out in front of it.

The reason why I think this is potentially a much more attractive option than the rule-based one is because there's so many variable factors. People have heard the stories about if you're driving along a freeway in California or Texas, where there's virtually nobody there, it makes perfect sense, the rule-based system. If you're driving in Camden High Street where there's chaos all around you and people are wandering, that is much more complicated for rules. Actually, having that intelligent neural network that can anticipate what's going to happen. Like you and I in real life, something crazy will happen and you've just got to be able to react to that. That's where the rule-based systems have often failed. When something weird happens and people didn't expect that and the rule doesn't exist.

The trouble is, if you start creating more and more rules, it becomes this incredibly complicated system. Whereas, the neural network is actually a much simpler way. As you said, Amy, the good news for us is, we invested in it before that big fund raising came in. We could see the potential for it. What we're really excited about is other people now see the potential for this system. It's interesting, Tesla are doing something similar. They're the other player in the neural network style of looking at autonomous driving. It's not they're out doing their own thing, but the fact that they've got some big backers there, that have given them the balance sheet to continue to invest in this product.

At the moment they have no revenue. It's very much a very early-stage investment, but the potential upside if car companies start to invest in this or want to take this product on, is huge. It's very much an early-stage investment. A high risk one, but when we started to do unquoted for the UK Growth, we said we want to find businesses that we can't find on the public markets and Wayve is a really perfect example of that. It's a British success story, we think. Still a long way to go for it, but the potential, I think, is huge and we're excited about it.

**To keep on this technological theme. AI, of course, is a major trend, which everyone is getting very excited about. Behind the scenes-, beyond autonomous cars and these big, big ambitions, behind the scenes it's already worked its way into the way many companies operate. Chatbots, automation. This is started to provide productivity growth in some of the holdings that you have. Do you want to share some examples of that playing out?**

I think you're right. Longer-term, there's going to be some pretty significant things. We don't know yet what they're going to be. There are already short-term gains. One example is a company Howdens' kitchens, or Howdens Joinery, the kitchen company. What they did was they put a chatbot in for their internal branches to speak to the head office where the branches would phone up and say do you have this particular stock or this style of kitchen or this colour and things like that. They used AI to allow it to answer questions. They thought they might take 20% of the questions that come in from the phones out by using the chatbot. It turned out that they take out 60% of the queries from the branches. Very simply queries could be dealt with very quickly.

That frees up time at the centre and, also, frees up times frankly, for the people in the branch. They can just fill in the chatbot very quickly and they get a quick answer. That then frees up time to deal with your customers, which I think is really quite good. Another one is a company we own called Kainos, which is a software implementor for public sector. For example, they work with the Department of Transport on the MOTs. I don't know if you've got a car, you put in your registration and it tells you whether you've got a valid MOT or not. Their technology helped to digitise that. What they've used AI to do is actually some of the testing of MOTs. You may not know this, but every mechanic will tell you that the MOT system is actually incredibly complicated.

There're huge guides of what you can and can't do. What Kainos have used is to allow the mechanic to talk to their iPad about some query on MOT and it will find the relevant section in the MOT handbook so that the mechanic can then see it, rather than having to flick through the book trying to find the right section. Again, you can think that actually would save that mechanic a bit of time to get to the issue much more quickly. Things like that.

**It's fulfilling the certification criteria then.**

Yes, answering a question of whether a certain thing can pass the test or not. This thing allows the mechanic to go to the relevant section to say this is what I have to do. It actually helps the mechanic do the MOT better or quicker than perhaps, they might have done in the past.

**Increased velocity of orders or sales. Then you also get more time to focus on strategy and revenue.**

They can do more MOTs, they can do more in a time because they can actually-, if there's anything complicated it doesn't slow everything up.

**"With the rise of cryptocurrencies as an alternative to investors, how much of a future threat do you feel they pose to traditional equities and stock valuations?" Have you given cryptocurrencies much thought, Iain?**

I see them very differently. What effectively you're buying with a trust, you're buying a portfolio of companies that are generating real returns. They're real businesses making real money and every day, hopefully, they're making more money for you as a shareholder. Which I think is really quite exciting. I think with crypto, in essence there's a bit of speculation about it. If it is a token of money, they you are speculating in money. I'm not saying you can't make money in crypto, but personally I'd rather own assets that are generating real returns, rather then worrying about what somebody says on the internet and the price goes up or down. That feels to me more like speculation rather than investment. We're involved in investment, so that's my answer.

**Very clear distinction, yes. "How long can the trust continue to buyback shares to maintain the discount without losing critical mass and becoming too small to continue?**

It's a great question. Our board of the trust took the view that, ultimately, we've got to do the right thing in terms of the rating, which is to make sure the discount doesn't go out and I think, to protect the existing shareholders, rather than talking about attracting ones. Hopefully, the fact that if people can see that the board are doing the right thing, protecting shareholders' interests, then perhaps at some point, the discount will narrow. It's gone to premium in the past and I think that the other thing that the board deserves credit. When we went to a premium, we actually issued shares and when we've been at a discount, we've bought them all back and more. I think as a board, they've actually done things that have helped long-term shareholders by managing that demand and supply.

I think longer-term, you've got to do the right thing for the shareholders and not worry too much about the size because we're still around 300 million of assets. We're still a decent size. So we can still buyback stock if need be, to do that. I think the board's view is we'd rather buyback the stock than worry about the size.

**We haven't talked very much about the interest rate environment. The macro and as a result of that, growth has been out of favour. There is some uncertainty around how quickly we think rates are going to come back down again. How does that play into the turning around of the growth story and its ability to narrow that discount?**

It's a good question again. I think when I think about interest rates, what you know is when interest rates have been going up a lot, it's bad news for growth investing in the short-run because they've said the future growth, I'm going to discount it at a higher rate of return. [marker 30:00] That's hurt growth investing, not just in the UK, but everywhere. We're now in a cycle where that starting to reverse a little bit. As you said, some people are saying it's not going to come down a lot. I was delighted the fact we hadn't talked about macro because we're not really a macro house. We're very much bottom-up stock pickers, but what I can say is that we've not predicated our investments on the fact that we think interest rates are going to go down or anything like that.

What we're trying to do is-, we're always all-cap growth and all-weather growth. We want to find businesses that we think can grow through the cycle over the long-term. Some businesses have got a really strong secular growth story. Something like Games Workshop, I don't think a recession's going to have a big impact on that. There're bigger factors that are going on there. We also own some recruitment companies that are going to be impacted by the tougher markets in the short-term. We think they are great long-term growth businesses and over this cycle, we think they will grow. So that's why we own them. I think that's the thing about growth, there're different types of growth, but if interest rates come down further, that's icing on the cake for us.

That's not our base-case for why we own our growth investments. We just think that our portfolio's going to grow faster than the market in terms of its earnings and you'll be rewarded for that. If you're rerated on top of that, that's great, but that's not our base-case.

**"What allocation will be looking-, vis-à-vis, private equity UK going forward?" They mentioned Hargreaves Lansdown, "Would you consider adding similar turnaround plays in the future?"**

As you said, we've got about 10% limit on privates. We've only done one investment. Milena and I have been quite picky. We're just wanting to find the best of the best. To the question, it very much depends on if we can find the right opportunities, then we're not going to be frightened of doing them. We want to find businesses we think we can make very good returns for and if we don't, we don't do them. It's very much on a case-by-case basis, but so far, we're found one which, touch wood, has started off quite well for us. It's still early days, but we're always on the lookout for other things. At the moment, we still like what we can find in the public markets. We don't need to have private investments to generate above average returns, to be clear. We still think there are lots of these companies that we own we're really excited about and we think they're great businesses.

**Loop back to the beginning where we talked about the UK being out of favour, deeply unfashionable for some time. That has broadened the opportunity set and the ability to invest at pretty good valuations?**

That's what we've done. We don't trade a huge amount, but some of the things we've been doing is effectively recycling some of the capital, either for things that we've taken over and adding to positions that we think the market's underestimating the long-term potential of them. You see that. What I'm encouraged by more recently is the fact that you think of the last five years, we've had the pandemic. We've had this interest rate cycle. We had the inflation shock. We're starting to see a little bit more about it's starting to normalise a little bit more and the market then is starting to reward companies that are delivering above-average growth. Last year, we saw some really good share price movements for companies like Auto Trader or Just Group, the annuity provider.

Where they delivered really good numbers and the market responded very positively to them. What we've been puzzled by a little bit, particularly something like Just Group, was they've been doing it for a number of years, but last year, perhaps because there's less noise now, you can actually see this business is doing really well and the shares are far too cheap. That's good news for us, is the fact that people are now looking at fundamentals again, rather than the macro stuff that probably dominated over the previous few years.

**"Why do you think UK specific growth companies warrant a special place in investors' portfolios against the broader opportunity set available in growth companies around the world?" Why a UK specific growth story versus a broad growth?**

I'm sure some of my colleagues, who run other trusts in Baillie Gifford will be watching this and how I answer that one. I think growth is a very attractive area. What I'd say about the UK is the fact that you find a lot of businesses-, you've got very good governance, which is one thing that I think people do moan a little bit about, red tape and bureaucracy. Actually, fundamentally, the UK's a very good place for shareholders to be well-protected in terms of companies taking their interests account of that.

**This Saba episode is really an example of that as well, isn't it?**

Exactly that. Even more broadly, what I was meaning more, is in terms of companies, underlying companies in terms of the governance structures. The fact that really, shareholders are generally pretty well protected in terms of management and boards doing stuff that are not in the long-term interests of investors. I think on top of that, you then have companies that are willing to grow, that take that long-term view. I think it's a very powerful combination of good governance, gut also, that underlying growth that you can find in the UK. Almost coming back to one of your earlier questions, we find that particularly I the mid-market and smaller market. Those companies that, perhaps, people haven't heard of as much. I think long-term for that really exciting potential. So, it's not the likes of BP or HSBC, it's companies like Kainos or Creo Medical that people have never heard of, but we think have actually got very exiting long-term potential.

**We've got somebody wants to delve a little bit more into the AJ Bell story. "With profits coming from interest margin, is the degree of AJ Bell's profits coming from interest margin a concern? How will fee-based income grow to catch up with this and make up a greater portion in the future?"**

Basically, AJ Bell makes more from a variety of factors. One is, as the questioner said, from the fees that they get-, or the underlying ad valorem fees. You get a small percentage of your assets. Obviously, if the assets go up over time, the stock markets go up, then that fee income will go in. That's a very attractive long-term attraction for the business. They also make a spread, as the questioner said, on the cash that's held on it. Now, let's be honest, that's what banks do. This is not something that this is something unique to platforms. The fact that people have been griping about it, it's the fact that actually, banks have always been doing that. AJ Bell isn't doing anything particularly different.

What I think was interesting was the fact that a few years ago, when interest rates were zero, you couldn't really make much money from it. The fact that interest rates went up, then there was spread that was available now. As interest rates go down, do you think that spread will come in? Yes, it will. I think the questioner's right, there will be a bit of a headwind from that, but against that, you're getting inflows. The markets have been going up. I still think it's a growth business. These factors, these short-term factors occasionally go against you, occasionally go for you, but the long-term trend has been positive and I think that's why we still like it longer-term.

**We go back to this point about interest rates, okay, you can weather it. You might be winning from it one day, losing another year, but actually, the long-term trajectory is the fact that everybody's got to save more because otherwise we're going to have a retirement crisis.**

Exactly. I think there's a danger that people will anchor of the very low interest rates we saw after the Great Financial Crisis. If you look at the really long-term and I'm talking about hundreds of years, that is the exception, not the norm. There's a danger that people will assume what happened a few years ago, that things are going to go back to that level. I think that's unlikely. I'm not a macro forecaster, but I think it will be very-, unless something's gone really wrong with the global economy, it's unlikely that we're going to see those rates again at virtually zero or negative rates. I just don't think that that's likely. It might happen, but it would be the exception, I think, rather than the norm. I think you've got to think about that. That's why I think banks and the brokers making a spread on people's cash. That's part of capitalism.

**If you look at how we got to such low interest-, 2008. 17 years later, we haven't really experienced interest rates that have been anywhere near what they were precrisis. Nearly two decades is quite a long time for people to get used to that being the norm. [marker 40:00]**

I'm showing me age, but I remember my first mortgage, it was almost 9% was the mortgage rate, which seems astronomical now. That was the market rate at that point. I think there's a danger that people forget history. The other point I think we should say, to be fair to AJ Bell, is that their rates of interest that they're charging on cash is quite a lot better than a lot of the high street banks for their mainstream accounts. It's not as though they were offering nothing. One thing about regulation and consumer duty is, it's really forced the providers, the platforms, to justify why they're earning what they do. They put a very robust set of reasons why they think it's a fair combination of actually paying a pretty decent rate of interest, but they're making some money on top of that. So far, the regulator seems to be quite happy with that.

**"So, you've emphasised the importance of cultural adaptability of the management teams you invest in, especially in a rapidly changing world. Could you share how you evaluate those characteristics when you're departing with capital to invest?"**

A good example of that, I think is Just Group, the annuity provider. Originally, their business was individual annuities. Then you may recall almost a decade ago, George Osborne in a budget said you don't have to buy an annuity anymore. Suddenly, their market changed overnight. The bottom fell out of it and they had to adapt. What they did was, they still right individual annuities, but they had to move into the bulk annuity market. So, the corporate pension schemes. They had to retool their business, effectively, to find a new market and they've done that very successfully. On top of that, they then had a regulatory shock that one of the assets that they used to hedge against the annuities, which is these guaranteed mortgages, the regulator said we don't really like them, you hold too many of them, they're too risky.

Although I and the company and others in industry disagreed with that, they had to adapt again, the assets that they hold against annuities. Again, they have adapted to that and are actually now thriving. That's an example of a company that had that worst nightmare that a politician almost overnight decimates your market by [unclear 42:54] standing up. Then they actually are thriving now and the share price is higher than it was at that point. That's an example to me, of adaptability and hopefully, we don't get too many of these because it's been a pretty long journey for Just Group. It can't have been easy for the company at the time, but that's what you want. I think that's one of the X factors that you don't see in the companies that we're trying to invest in, is companies that do have that adaptability

That people are trying to look round the corner to see how can I find growth in the future? Not always going to get that right, but having that mindset, I think, allows you to capture those opportunities that everyone else hasn't seen yet and that's exciting.

**What do they say? Necessity is the mother of invention. It feels like that's what Just Group is. It's got its purpose through the necessity to survive.**

Exactly. Actually, sometimes patience as well. The interesting thing is, individual annuities are growing again quite strongly. People are actually seeing a benefit of higher interest rates to having an annuity again. What goes around comes around again somewhat.

**That's testament to having the relationship and knowing your companies well.**

That's one point where regulation is working in their favour now because consumer duty is forcing advisers and I'm sure the people who are listening to this know that making sure that their clients are not necessarily guaranteed income, but how they're going to support themselves and annuities suddenly seem a pretty good idea after all.

**That's all we've got time for. Thank you, Iain for your time and insights. Thank you for watching and for your questions. We've more sessions like this coming up, so do keep an eye out for those if you found today useful. Thank you very much.**

**Annual Past Performance to 31 December Each Year (Net %)**

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| Baillie Gifford UK Growth Trust PLC | 12.7 | 8.2 | -29.9 | 2.3 | 11.1 |
| NAV | 4.6 | 12.1 | -22.0 | 4.2 | 11.2 |
| FTSE All-Share Index | -9.8 | 18.3 | 0.3 | 7.9 | 9.5 |

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 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.
- 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.

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