

# TEAM OF TALENTS

Baillie Gifford – International Alpha Team

**BAILLIE GIFFORD**

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## BAILLIE GIFFORD'S INTERNATIONAL ALPHA TEAM

*A musician, a lawyer and a graduate in Arabic studies walk into an office. This isn't a joke. It's a day in the life of Baillie Gifford's International Alpha Team which recruits widely and thinks differently.*

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It's rarely the four fastest runners who win Olympic sprint relay gold. What counts is bringing together mixed talents to form an effective unit. Fast starters, strong finishers, and those who excel on the bends all bring something different. Skill in transferring the baton is crucial, so too is the mix of soft skills and personalities that define a great team.

The right blend is vital to the success of Baillie Gifford's International Alpha Strategy. The team behind it differs from many international funds in that individuals from different educational backgrounds, and boasting a range of experience, combine strengths and share responsibility to manage the portfolio. By supporting and challenging each other, they ensure that the team's output is greater than the sum of its six parts.

International Alpha investment manager Angus Franklin tells Matt Dey why disparate decision makers do better.

### **Matt Dey: What makes International Alpha different?**

Angus Franklin: We build on the strong foundations of Baillie Gifford – a privately-owned firm that has been around for over a century. There are no external shareholders, so there's no interference in how we go about our job. That stability plays a big part in our recruitment process. We don't look for the type of background typical of our industry. Instead, we look for clever, inquisitive and thoughtful people. Cognitive diversity is important to us; it's one of the team's biggest strengths. We bring together individuals from different backgrounds with varied perspectives,

and often different ways of approaching things, yet we all work towards a common goal. Diversity of thought is far more important than having a purely economics or business school background. For us, someone who studied English literature or music can add as much as an economist, and in most cases more. Economics is not called the dismal science for nothing! Excessive reliance on models has proven to be quite dangerous when looking at complex financial systems such as stock markets (or even pandemics) as anyone who worked through the Great Financial Crisis will be aware. We think an ability to be curious and think differently is far more important.

## MD: What is the make-up of the team?

AF: The International Alpha Team tries to combine diversity of thought and collective responsibility and is, therefore, different from the star manager culture seen elsewhere in the industry.

We are a team of six experienced investors who know each other very well. Each of the team brings something different in terms of experience, expertise and personality. From Donald and Andrew and their encyclopaedic knowledge of all things Japan and emerging markets, Tom with his analytic rigour, Jenny with her strategic thinking, to Toby with his boundless energy and enthusiasm, there is a nice balance between youthful optimism and pragmatism which is important to us as long-term investors. Our strength lies in the depth and breadth of experience. While we all have primary responsibility for particular regions, many of us have rotated through different investment teams across the firm during our long careers here. This means there is no home bias – comparing and contrasting stocks is made easier and decisions can be made in a holistic manner. That's our secret sauce. For example, our discussions around Spotify (Swedish music streaming platform) have been assisted by our knowledge of Sony (Japanese global record label) which in turn helped develop our positive view on Tencent Music Entertainment (Chinese music platform). The team's size means it's big enough to provide diverse perspectives but small enough to ensure effective decision making. We have individual stock picking responsibility but collective responsibility for the portfolio. I believe Baillie Gifford's training and rotation system has created a unique competitive advantage in this regard.

## MD: How does the process work in practice?

AF: We're trying to identify businesses with large, durable growth opportunities and sustainable competitive advantages. We gather information from a range of sources and, when a member of the team has strong views on a stock, they write a research paper. Potential purchases or sales are discussed at team meetings, and the others are encouraged to challenge the

proposer's work. In the absence of any information that would overrule the decision, we tend to back the enthusiast.

We purposely don't all sit together, and we are aware of the dangers of 'groupthink'. It's important for each of us to have the freedom to follow individual curiosities and interests, whilst also tapping into the different insights from other teams across the investment floor. We want people to back themselves. This space helps support independent thought. Cognitive diversity is a key element, but the way the group interacts is even more important.

## MD: What does that mean for the portfolio?

AF: It helps us make better decisions. We hold broader, more interesting debates on companies around the world. We always explore the strengths and weaknesses in the proposer's stock idea, trying to discover whether there are areas we need to look at more closely, but without denting the team member's conviction and enthusiasm of the proposer. People want to see the pluses and the minuses of each idea, and there are often different views. This is healthy. We aren't afraid to disagree.

## MD: How has that process evolved?

AF: Originally, we worked to more of a consensus decision-making approach, but we found we had too many score draws and often wouldn't come to any decisions! About 14 years ago we moved to a 'back the sponsor' model. Given the trust we have in each other and such stability in our people, philosophy and process, this works well and produces a higher conviction portfolio overall. New ideas are still subject to an assessment of the overall impact and positioning of the portfolio, so we won't build up a load of ideas in one area. But, in principle, if one of the sponsors finds a seconder in the group then we would expect to take a holding.

## MD: You rotate the role of chairing of the stock meetings. Why?

AF: We're democratic and we're looking for open debate. We're all experienced,



### 1. Donald Farquharson

Although I graduated in Arabic Studies, I've focused on Japan for more than 30 years. It has been a pretty successful period for bottom-up, growth-orientated investors.



### 2. Jenny Davis

As a musician, I love analysing patterns to understand their emotion and mathematical structure – that applies equally to businesses or symphonies.





### 3. Angus Franklin

I studied history then became a chartered accountant, so tend to focus on what historical records teach us about companies' business models.



### 4. Toby Ross

I joined Baillie Gifford after studying English literature. I'm still a voracious reader, but nowadays it's insightful research rather than the classics.



### 5. Andrew Stobart

My ambition was to become a medic like my grandfather, until a chance meeting with an investment manager switched my interest to finance and economics.



### 6. Tom Walsh

A law degree and accountancy qualification cemented my attention to detail and love of analysis. There's nothing quite like getting to know a company.

and we value everyone's opinion, so we don't like to have our meetings steered by one particular person. Rotating the chair helps to create a better dialogue and everyone is more comfortable speaking up – each member brings a different style to leading discussions which keeps things fresh. We're trying to create an environment that fosters challenge. It also helps with shared accountability. We have no time for group think. It's about honest, rigorous debate yet collective responsibility for the portfolio. It's a balance that works well.

#### MD: Give us an example of the teamwork in action.

AF: The breadth of experience and holistic focus is key. I'll give you a couple of different examples. We believe the market is underestimating the growth opportunity in Asia for investment and life insurance products.

Penetration rates for these products are low and likely to grow faster than the underlying economies, and the lack of social security and rising living standards mean some form of life assurance is becoming essential. We have owned Prudential for these reasons for some time. Transferring our knowledge and understanding has led to investments in AIA and, more recently, Ping An.

We can also use the team's experience to contrast different ideas. Donald once brought a variety of different specialist Japanese retailers to our attention. The decline of the once dominant Japanese department stores provided a boost to the long-term growth opportunity for these companies. However, the discussion within the team quickly circled back round to Inditex, the owner of the Zara brand, which had already expanded successfully to over 70 countries, highlighting the strength of its logistics-based operations. We went with the latter.



*Combined*  
**130**  
*years of experience*

**MD: What are the benefits of doing it that way?**

AF: We're trying to encourage independent thought and perspectives. Not seeking consensus is also empowering – it means we can follow our own enthusiasms and interests. In this way we can benefit from the breadth, depth and diversity of our combined 130 years of experience. But equally importantly, given that we have worked together for many years, we can support one another. If you have a holding whose share price is under pressure, it's natural to come up with reasons why it's a bad investment. Often you need the support of your team to say, "let's go back to basics. It's doing badly at the moment, but actually the core of the thesis is correct – it's just facing headwinds."

When you're on your own or in a smaller group, you might convince yourself you've been wrong and be tempted to throw something out prematurely. Our experience with Olympus, the endoscope maker, is a great example. The market was in panic mode following the revelation of fraudulent accounting and the threat of a stock market delisting. It was a high-pressure moment but being able to reduce that burden on our colleague allowed far more

rational decision making. Knowing you have the support of your colleagues makes it far easier to focus on the first principles of cash flow rather than market hysteria, and to back your conviction to stay the course, in this case to the benefit of our clients.

**MD: What are the downsides of the team approach?**

AF: From the outside it might look cleaner if you have one or three people reaching a majority verdict. But in doing so you lose a vast stack of experience and the diversity of thought probing the investment case and coming up with a wider variety of ideas. As discussed previously, we are keen to avoid consensus decision making amongst the six of us as this may lead to undifferentiated views from the market at large. We get around that by backing the individual. That's the advantage of broader discussion and of having worked together for so long. We respect others' views and we learn from each other. Most importantly, it's an approach that is built on trust.



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