MANAGERS' ANNUAL REVIEW

THE MONKS INVESTMENT TRUST PLC

30 April 2018

BAILLIE GIFFORD

IMPORTANT INFORMATION AND RISK FACTORS

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All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

The images used in this document are for illustrative purposes only.

This is an extract from the Monks Investment Trust Annual report and Financial Statements as at 30 April 2018, a copy of which can be obtained from our Client Relations Team on the telephone number on the outside back cover.

For a Key Information Document, please visit our website at www.bailliegifford.com

FTSE

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Portfolio Manager

35 years with Baillie Gifford
35 years' experience

MALCOLM MACCOLL
Deputy Manager

19 years with Baillie Gifford
19 years' experience

SPENCER ADAIR
Deputy Manager

18 years with Baillie Gifford
18 years' experience

MANAGERS' ANNUAL REVIEW

Performance

Periodic Performance to 30 April 2018 (%)	1 Year	3 Years	5 Years	10 Years
Share Price – Monks Investment Trust	20.4	82.9	128.9	150.1
NAV – Monks Investment Trust	15.8	61.5	91.8	115.3
Comparative Index – FTSE World Index	7.5	41.5	78.4	154.4

Discrete Performance (%)	31/03/13–31/03/14	31/03/14–31/03/15	31/03/15–31/03/16	31/03/16–31/03/17	31/03/17–31/03/18
Share Price – Monks Investment Trust	12.2	10.6	-3.2	53.9	20.3
NAV – Monks Investment Trust	8.2	11.1	-2.0	37.3	15.0
Comparative Index – FTSE World Index	7.6	18.8	0.0	32.9	2.6

Source: Baillie Gifford, Morningstar and relevant underlying index provider, total return.

Past performance is not a guide to future returns.

PERFORMANCE

During the year the Company's net asset value (NAV), with borrowings at fair value, returned 15.8%, well ahead of the FTSE World Index at 7.5%. The information contained in such short-term data is limited. Since the current team took on the management of the Monks portfolio in March 2015 the index has returned 40.3%, the Company's NAV with borrowings at fair value has returned 57.9% and the share price returned 84.4%[1]. Yet even this period is short compared to our own investment horizon of five years plus, or the interests of many of our shareholders which can run to decades. Despite a positive start these remain early days for the new approach adopted in 2015.

The key metric by which we measure the success of our holdings over the short to medium term is their operational performance: we ask ourselves whether their operating results are consistent with a sustainable increase in sales, earnings per share and cash flows over a longer horizon. For each stock, we monitor delivery against our own expectations and the company's stated strategy. While share prices are unpredictable and random over short periods, over time we expect them to follow fundamentals, though this connection is neither immediate nor guaranteed. Our process focuses on identifying and owning those companies most likely to deliver well above the market average growth over longer time periods; index weightings and classifications play no part in our process, though we do aim to produce a balanced and diversified portfolio of value-creating companies. The portfolio's strong returns since 2015 are supportive of this approach, with the dominant driver of value creation being the underlying growth of our holdings, rather than clever asset allocation or market timing.

Our most recent results are also consistent with this pattern: amongst the most significant contributors to returns in the year under review were NVIDIA, Alibaba, Naspers, GrubHub, Autohome, MasterCard, Fiat Chrysler, AIA and Abiomed, each of which grew earnings by at least a third in calendar 2017. These companies represent a broad spectrum of industry exposures from insurance through automobiles and credit cards to sophisticated semi-conductors, demonstrating the range of opportunities available to global stockpickers. The single largest contributor to returns for the year (and since March 2015) was Amazon, which grew its reported earnings 26% in 2017. This rate was depressed, as is usual with this company, by its willingness to invest heavily in order to maximise future growth.

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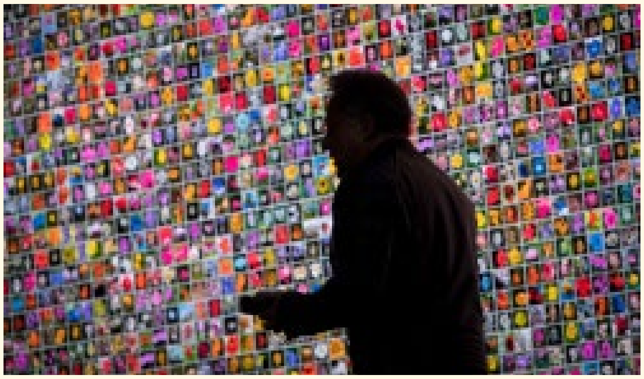
During the year the share price of fourteen holdings rose by more than 50% in sterling terms. Of these we would categorise eleven as 'online platforms'. Often these companies are using the internet to deliver traditional services in a way that disrupts incumbents, just as Amazon has done in retail. These companies tend to have a number of common features: large market opportunities, asset-light business models, visionary leaders and the enticing possibility of entrenched leadership positions. When one sees a winning 'online platform' emerge, it seems simple but the competitive environment is intense; Warren Buffet said recently of Amazon's doughty leader "I think what Jeff Bezos has done is something close to a miracle".

1. Total returns from 31 March 2015 to 30 April 2018. Past performance is not a guide to future performance.

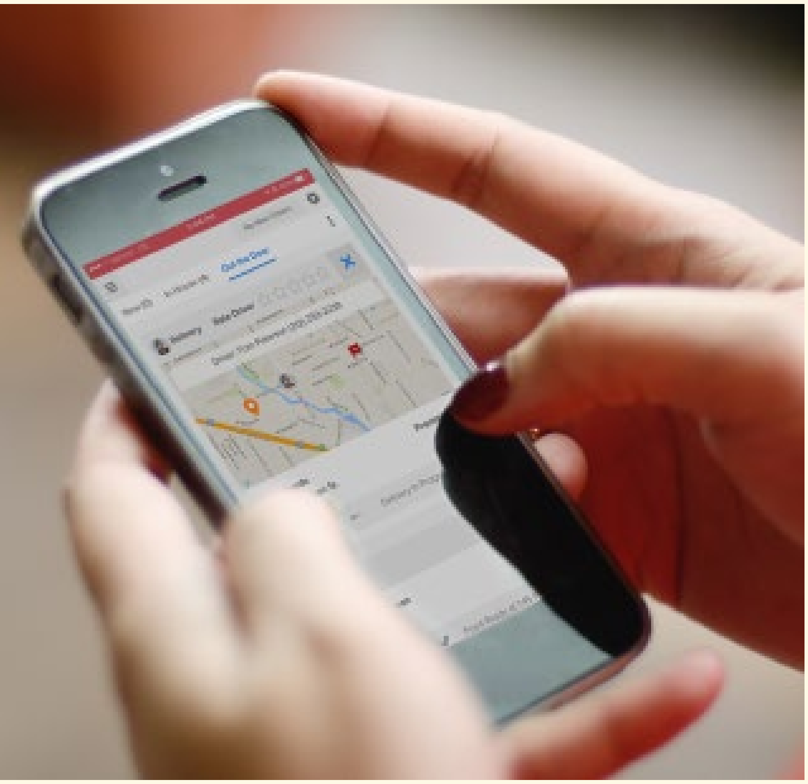


Lindblad Expeditions operates specialist adventure cruises. © Ralph Lee Hopkins.

Headquarters of Naspers-owned Media24 Ltd. in Cape Town, South Africa. © Bloomberg/Getty Images.

Jen-Hsun Huang, president and chief executive officer of Nvidia Corp., is silhouetted as he speaks at the 2018 Consumer Electronics Show. © Bloomberg/Getty Images.

AIA Group Ltd., center, in the business district of Central in Hong Kong, China. © Bloomberg/Getty Images.



© GrubHub.

Growth in data and the digital world, and especially in cloud and mobile applications, has clearly benefited our investments in the semi-conductor industry where we own chip designers (NVIDIA, Infineon, Rohm and Advanced Micro Devices), manufacturers (Samsung Electronics and TSMC) and the makers of testing equipment (Advantest and Teradyne). These companies are all benefiting from very strong volume demand, together with improved pricing power as a result of historic industry consolidation. However, we are wary that in this cyclical industry such boom conditions may not last forever, especially with the Chinese investing heavily to build up their own capabilities and we have begun to bank some profits. China is successfully switching its economic focus from low-cost manufacturing to consumption and services. The government is actively promoting the development of domestic technology champions. Chinese consumer internet companies Alibaba, Autohome and 58.com all find themselves at the confluence of these positive developments. All performed strongly and counted amongst the leading contributors to performance for the year.

Another platform that seems to be emerging as a winner is GrubHub, the American online food ordering and delivery company. We have owned this stock since late 2015 when it was one of a number of competitors in a US$200 billion market. Soon after our purchase the company announced a significant investment in delivery technology and physical infrastructure to aid its service and the market groaned as this placed its fast-paced asset-light model under pressure. We applauded because in the long term it gave GrubHub a better chance of success through a definable edge – the speed of delivery and the quality of the food when it arrived. During the year the shares more than doubled as it continued to consolidate its position through acquisitions and announced it had won a contract to provide delivery services for all KFC and Taco Bell restaurants in the US. GrubHub now has access to over 80,000 restaurants in the US; it is four times larger than the next biggest online food delivery platform.

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PORTFOLIO CHANGES

During the year we purchased twenty new holdings and made complete sales of thirteen. These transactions are summarised opposite. Portfolio turnover was just under 20% which equates to a holding period of five years and is consistent with our long-term time horizon.

We categorise our holdings into four growth categories – Stalwarts, Rapid, Cyclical and Latent. These titles reflect the different ways we expect our investments to grow over the long term. Although our process is based on picking individual stocks, trading activity can be understood through the lens of these growth categories.

We refreshed our Stalwart growth companies, believing that many traditional consumer staples have become expensive relative to their prospects, as their dividend characteristics have been much sought after at a time of very low bond yields. Colgate-Palmolive was the last such holding in our portfolio before we sold it: best known for its eponymous toothpaste brand, it has delivered only 4% per annum earnings growth over the past three years yet trades on a price-earnings multiple in the mid 20’s, which is well in excess of the wider market. We also sold Novo Nordisk (a leader in insulin used to treating diabetes) which is suffering pricing pressures for its products. New Stalwart purchases were Arthur J. Gallagher (a US insurance broker), Pernod Ricard (the spirits company whose stable includes Absolut Vodka, Glenlivet and Malibu) and the US life sciences supply company, Thermo Fisher.

NEW BUYS

58.com
Advanced Micro Devices
Advantest
Arthur J. Gallagher
Banco Bradesco
Chegg
Genmab
Iida Group Holdings
Lindblad Expeditions Holdings
Mail.ru Group
MRC Global
NetEase
Netflix
Orica
Pernod Ricard
Persol Holdings
Philips Lighting
Spotify
Sumitomo Mitsui Trust Holdings
Thermo Fisher Scientific

COMPLETE SALES

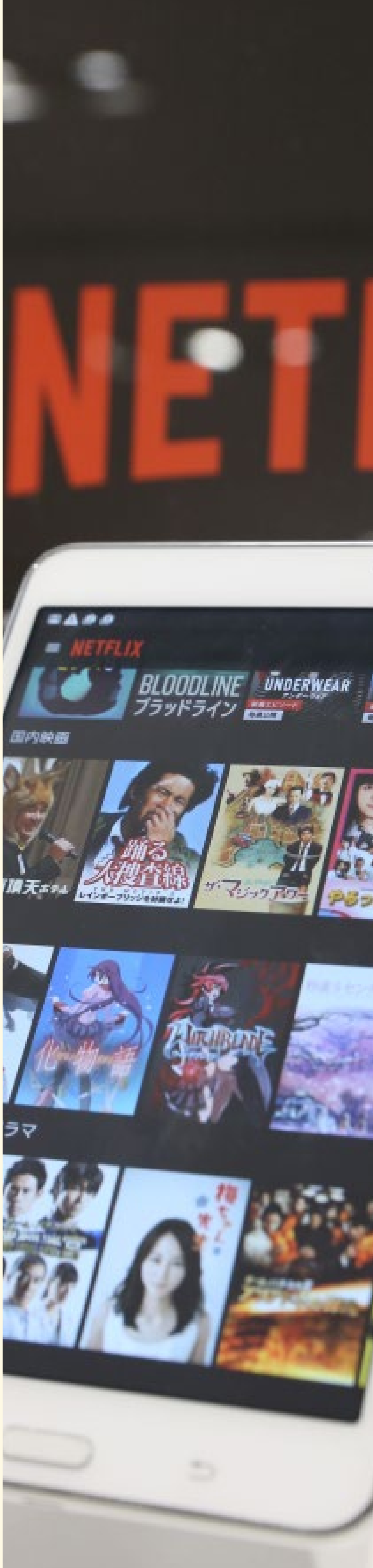
Brambles
Carlsberg
CarMax
Colgate-Palmolive
Doric Nimrod Air One
Financial Engines
Intuitive Surgical
Japan Exchange
Juridica Investments
Novo Nordisk
Qiagen
Rolls Royce
TripAdvisor

Rapid growth companies should be the most dynamic in the portfolio and, as noted above, for many of our technology holdings this has proven to be the case. We have trimmed some of our biggest and most successful investments (Alphabet, Amazon and Naspers for example) and reinvested into companies that are at a much earlier stage in their development. These include the two Chinese online companies, 58.com (classified advertising) and NetEase (gaming), two of the increasingly ubiquitous media streaming services Spotify and Netflix, and Genmab which is a Danish biotechnology company. We also sold out of both TripAdvisor and Financial Engines as we lost confidence in their long-term potential in the face of disappointing progress.

Across the four growth categories, the most noticeable change has been a reduction to the weighting in Cyclical growth holdings from 29% to 22% of the portfolio. Much of this activity has focused on the US where valuations for such companies have increased since the 2016 Presidential election. The plan to 'Make America Great Again' has caused a degree of unwarranted excitement and we have reduced holdings in Martin Marietta (construction aggregates and cement), Lincoln Electric (welding equipment and consumables) and TD Ameritrade (online broking). We sold CarMax, the US second hand auto retailer whose prospects seem less certain as online business models and the rise of electric vehicles represent material threats to this industry. New purchases included our first foray for many years into mining through the purchase of Orica, a supplier of explosives to mining companies. We think Orica should enjoy the dual drivers of a new management team with significant plans for efficiency gains together with a recovery in the mining industry after a multi-year downturn.

This reduction in Cyclical exposure has been mirrored by a rise in our Latent growth category. Latent growth companies tend to have a poor recent track record but a potential trigger to return the company to a growth profile. Our theory is that there is little, if any, growth priced in to such investments, so any improvement can have a disproportionate effect on valuation. When growth fails to materialise the downside is generally limited as was the case with Carlsberg (like Colgate, a highly rated consumer franchise) which was sold during the year. New investments included Advanced Micro Devices (power semi-conductors), Iida Group (a Japanese home builder), Sumitomo Mitsui Trust (a Japanese bank), Lindblad Expeditions (a niche holiday cruise company), MRC Global (a distributor of products to oil companies) and Signify (formerly called Philips Lighting, a spin out from the large Dutch industrial conglomerate), each of which has potential for significant improvement.

Monks has the freedom to invest in unquoted as well as quoted equities, though our approach is to only purchase private companies which offer opportunities that we cannot gain through listed instruments. As a result, the exposure of the company to such holdings will always be limited. As noted above we invested in Spotify when it was a private company but it has subsequently listed in New York.



Netflix Partners With SoftBank For Japan Launch.
© Getty Images AsiaPac.

OUTLOOK FOR THE PORTFOLIO

Much of our focus over recent months has been on portfolio diversification. Following a sustained period of strong performance, with a significant contribution from a relatively narrow range of technology and internet companies, we want to ensure we have plenty of under-appreciated growth stocks within the portfolio. We have started to harvest some of the gains amongst our technology and US cyclical holdings where progress is well recognised by the market. Whilst our portfolio turnover remains low, it is encouraging to see a broad spread of new ideas coming forward, from a range of different industries and geographies. We feel that this modest rebalancing adds to the attractiveness of the portfolio for long-term investors.

We remain generally enthusiastic about global growth, notably from Asian consumer demand and across a range of technological advances driven by the use of data in areas such as health, media, transport and trade. In the West we see the impact of the greater use of mobile devices on a daily basis, yet in China and other emerging markets the momentum is even greater, supported by the positive tailwind of strong demographics, supportive governments and a huge wealth gap. In less than one generation many of these countries could catch up with western living standards which is a mouth watering prospect for a growth investor.

It is instructive to look back over the last three financial years. In the first the global equity market was virtually unchanged (up 0.5%), in the second with the tailwind of a major sterling deprecation it rose at its strongest rate for many years (31%) and in the most recent year we saw a more steady appreciation (8%) which is close to the long-term historic average return. This shows that markets can be volatile and often respond in the short run to politics, economics and newspaper headlines, in contrast to company fundamentals which have proven less volatile and which have been the primary driver of portfolio performance. Those fundamentals should remain supportive over the long term if we can continue to uncover the best growth stocks in the world on your behalf and give them sufficient time to reach their considerable potential.

CURIOUS ABOUT THE WORLD

If you require further assistance or information, please contact
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For a Key Information Document, please visit our website at **www.bailliegifford.com**

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