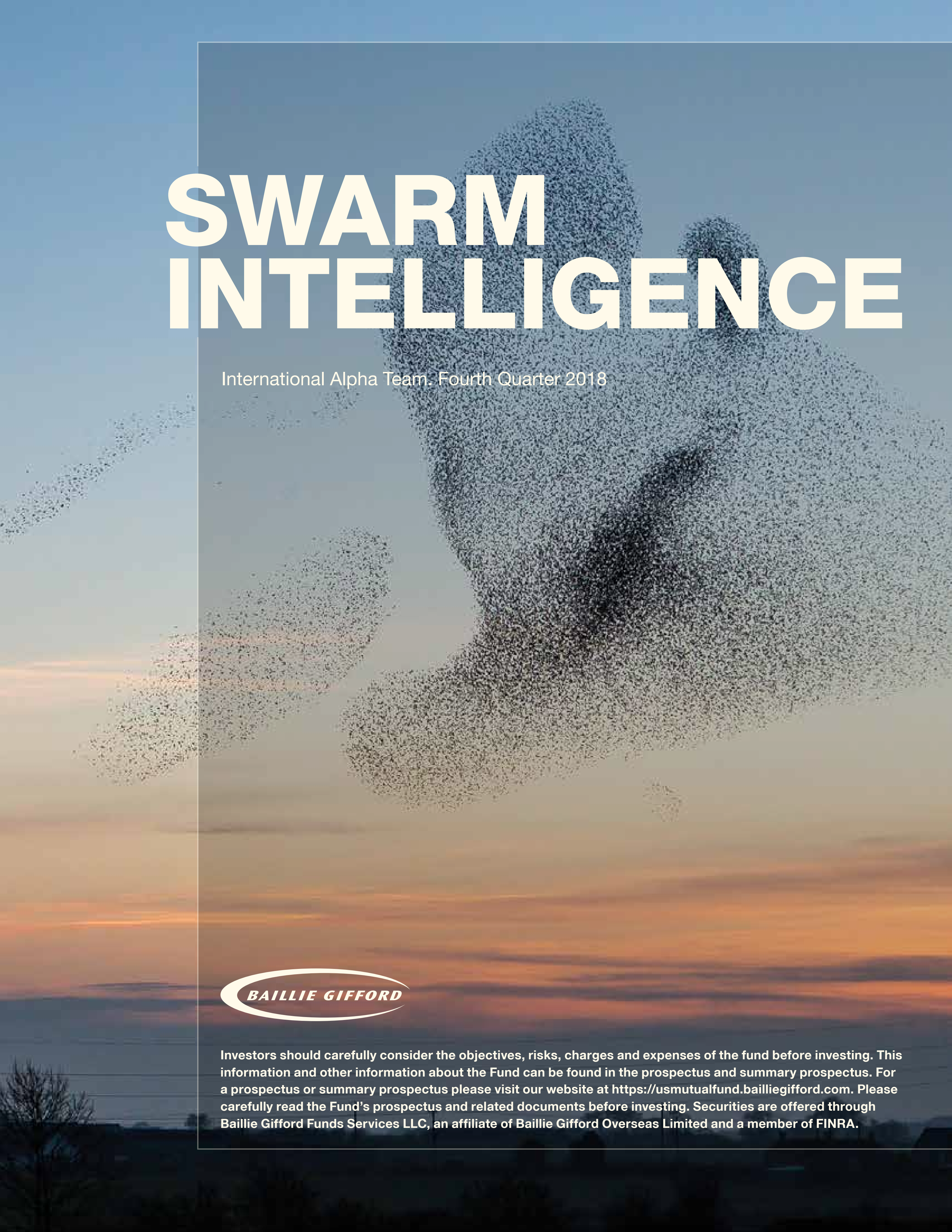

SWARM INTELLIGENCE

International Alpha Team. Fourth Quarter 2018

BAILLIE GIFFORD

Investors should carefully consider the objectives, risks, charges and expenses of the fund before investing. This information and other information about the Fund can be found in the prospectus and summary prospectus. For a prospectus or summary prospectus please visit our website at https://usmutualfund.bailliegifford.com. Please carefully read the Fund's prospectus and related documents before investing. Securities are offered through Baillie Gifford Funds Services LLC, an affiliate of Baillie Gifford Overseas Limited and a member of FINRA.

IMPORTANT INFORMATION AND RISK FACTORS

This article contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned.

Any stock examples, or images, used in this article are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style.

As with all mutual funds, the value of an investment in the fund could decline, so you could lose money. International investing involves special risks, which include changes in currency rates, foreign taxation and differences in auditing standards and securities regulations, political uncertainty and greater volatility. These risks are even greater when investing in emerging markets. Security prices in emerging markets can be significantly more volatile than in the more developed nations of the world, reflecting the greater uncertainties of investing in less established markets and economies.

Currency risk includes the risk that the foreign currencies in which a fund's investments are traded, in which a fund receives income, or in which a fund has taken a position, will decline in value relative to the U.S. dollar.

Hedging against a decline in the value of currency does not eliminate fluctuations in the prices of portfolio securities or prevent losses if the prices of such securities decline. In addition, hedging a foreign currency can have a negative effect on performance if the U.S. dollar declines in value relative to that currency, or if the currency hedging is otherwise ineffective.

The most significant risks of an investment in The Baillie Gifford International Alpha Fund are Investment Style Risk, Growth Stock Risk, Long-Term Investment Strategy Risk, Geographic Focus Risk, Asia Risk, China Risk, Conflicts of Interest Risk, Currency and Currency Hedging Risk, Emerging Markets Risk, Equity Securities Risk, Focused Investment Risk, Information Technology Risk, IPO Risk, Japan Risk, Large Capitalization Securities Risk, Liquidity Risk, Market Disruption and Geopolitical Risk, Market Risk, Non-U.S. Investment Risk, Service Provider Risk, Settlement Risk, Small-and Medium-Capitalization Securities Risk. For more information about these and other risks of an investment in the fund, see "Principal Investment Risks" and "Additional Investment Strategies" in the prospectus. The Baillie Gifford International Alpha Fund seeks capital appreciation. There can be no assurance, however, that the fund will achieve its investment objective.

The fund is distributed by Baillie Gifford Funds Services LLC. Baillie Gifford Funds Services LLC is registered as a broker-dealer with the SEC, a member of FINRA and is an affiliate of Baillie Gifford Overseas Limited.

The Baillie Gifford International Alpha Fund
Top Ten Holdings at 30 September 2019

	Holdings	Fund %
1	TSMC	3.65
2	MercadoLibre	2.95
3	Deutsche Boerse	2.63
4	AIA	2.51
5	Samsung Electronics	2.46
6	Nestlé	2.35
7	SAP	2.35
8	Constellation Software	2.20
9	Scout24	2.17
10	Edenred	2.11

It should not be assumed that recommendations/ transactions made in the future will be profitable or will equal performance of the securities mentioned. A full list of holdings is available on request. The composition of the Fund's holdings is subject to change. Percentages are based on securities at market value.

The Baillie Gifford International Alpha Fund
(Share Class K), 30 September 2019 (%)

Gross Expense Ratio	0.62
Net Expense Ratio	0.62

Annualised total returns to 30 September 2019 (%)

	1 year	3 years	5 years	10 years
The Baillie Gifford International Alpha Fund	1.23	8.16	6.54	7.22
MSCI AC World ex US Index	-0.72	6.85	3.39	4.93

Source: Bank of New York Mellon and relevant underlying index provider(s). Net of fees, US dollars. Returns are based on the K share class from 28 April 2017. Prior to that date returns are calculated based on the oldest share class of the Fund adjusted to reflect the K share class fees where these fees are higher.

The performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end performance please visit our website at www.bailliegifford.com/usmutualfund/internationalalphafund

The Baillie Gifford fund's performance shown assumes the reinvestment of dividend and capital gain distributions and is net of management fees and expenses. Returns for periods less than one year are not annualised. From time to time, certain fees and/or expenses have been voluntarily or contractually waived or reimbursed, which has resulted in higher returns. Without these waivers or reimbursements, the returns would have been lower. Voluntary waivers or reimbursements may be applied or discontinued at any time without notice. Only the Board of Trustees may modify or terminate contractual fee waivers or expense reimbursements. Fees and expenses apply to a continued investment in the funds. All fees are described in each fund's current prospectus.

Expense Ratios: All mutual funds have expense ratios which represent what shareholders pay for operating expenses and management fees. Expense ratios are expressed as an annualized percentage of a fund's average net assets paid out in expenses. Expense ratio information is as of the fund's current prospectus, as revised and supplemented from time to time.

The fund is more concentrated than the MSCI All Country World ex US Index which is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance in the global developed and emerging markets, excluding the United States. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

MSCI Data:

Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

COLLABORATION

Our industry is full of star fund managers and guru investors. It is a cult of the individual, not a celebration of the team. The psychologist and author Daniel Kahneman believes that "when people look at a joint project, they are very curious about 'who did it'. The assumption is that one person did it. … our joint work is clearly superior to anything we could have done alone … The urge is to allocate credit and to single out people and not treat collaborations as units."

Our belief is that collaboration produces better results.

When you think of someone doing research, you probably have an image rather like the image to the right in your mind.

Instead, I would like you to think of our research process like the image on the cover.

This picture is a murmuration of starlings. These birds gather together in a particularly fascinating way. They form bizarre, shifting shapes as they flock, confusing any potential predator into thinking they are one enormous organism. This collective behaviour is a kind of swarm intelligence, a self-organised and decentralised group. There is no King Starling telling the others what to do. In *The Wisdom of Crowds,* James Surowiecki finds that human groups can also show an intelligence greater than any single person. We agree. For us, collaborating in a team leads to wiser investment decisions.

A solitary figure, thinking quietly, awaiting a Eureka moment.
© VPC Travel Photo/Alamy Stock Photo.

…this cognitive diversity is a great strength, and it is not an accident.

Why does collaboration work in investing? Ray Dalio, the hedge fund investor, thinks “the main advantage of working in groups is that it’s easier to design a group to include all the qualities needed to be successful than to find all those qualities in one person”.

The qualities that we believe are needed to make good investment decisions are threefold. First, considering diverse sources of information; this is evidently easier to do in a group as more people can absorb more information than any one person can alone. Second, extracting insight by identifying which information can have the greatest impact; again this is easier in a group where the wisdom and experience of different people can be brought into discussion. Third, keeping one’s head through market gyrations; a well-functioning group can achieve this by supporting each other.

Let me take each of these in turn and illustrate our collaborative process. First, we consider diverse sources of information. The ACWI Alpha Portfolio Construction Group (PCG) is a motley crew in terms of our educational backgrounds. Between us we have degrees in everything from Arabic Studies to Music. To the business world focused on MBAs and CFAs, we can appear a collection of eccentrics. But this cognitive diversity is a great strength, and it is not an accident. It gives us different lenses through which to view the world. Collaboration between a cognitively diverse group is one of the secret sauces in our investment process.

Across the Baillie Gifford investment floor we seek alternative sources of information, in order to step out of the echo chamber of our industry. Our alternative inputs range from sponsoring the largest non-fiction book prize in the UK to working directly with academics and investigative journalists. These investigations have ranged from changing food consumption habits to ageing, and the implications for investment opportunities. These give an independent view and a different methodology from our own. We also try to avoid groupthink in the way we structure our teams. We debate all research within small teams of around six, a size identified by academics such as Charlan Nemeth as optimal for incorporating a range of views whilst not side-lining any dissenting voices.

Alibaba and Grifols both exemplify how we utilise the diversity of the team to consider a stock before we buy. In the case of Alibaba, several different sources within Baillie Gifford contributed to the communal understanding of the stock. Baillie Gifford's longest standing client[1] had owned the stock ahead of it listing; our Emerging Market team provided Chinese context; an international team examined the VIE[2] structure; and a technology analyst assessed the business model against global comparators.

In the case of Grifols, our shared research library contains notes dating back to mid 2009 (the company joined the Spanish IBEX 35 Index in early 2008). We were able to speak with a number of our colleagues in both the equity and fixed income departments who had produced research notes and management meeting notes; not just with Grifols but also their competitors. We had in-depth knowledge within our PCG of its UK, Australian, American and Chinese competitors, so could compare businesses in order to identify the highest quality player.

1. Baillie Gifford's longest standing client has been managed since 1909.

2. A variable interest entity (VIE) refers to a legal business structure in which an investor has a controlling interest, despite not having a majority of voting rights.

Our alternative inputs range from sponsoring the largest non-fiction book prize in the UK to working directly with academics and investigative journalists.

—

The second way in which we collaborate is through bringing the wisdom and experience of the group together to generate insight. Information in itself is not a competitive advantage, but insight is. We try to create a supportive, stable culture and long-term investment horizon where there is time to figure out what really matters in an investment case. The ability to pass on institutional memory is an important part of the wisdom we try to bring to our investment cases. Within the ACWI Alpha PCG alone, we have 164 years of collective investing experience, 137 years of which were spent at Baillie Gifford. This degree of perspective and stability allows us to focus on signal rather than noise, on long-term returns rather than short-term expectations.

Our industry is crippled in its ability to think long-term – most companies manage their accounts to quarterly results, and most fund managers manage their portfolios to annual performance. This has a detrimental impact on returns. You will all be familiar with the businesses of Amazon and Walmart. Amazon invests heavily for the future, and has only hit quarterly earnings expectations 4 per cent of the time over the past decade.[3] In contrast, Walmart has smoothly delivered quarterly earnings that met expectations 75 per cent of the time over the same period. Amazon has added $424 billion to its market capitalisation over that decade, whilst Walmart has added only $10 billion in value. We find the same pattern in our own performance: we have outperformed against the MSCI AC World ex US Index in 63 per cent of quarters, but a wholesome 100 per cent over rolling 3 year and longer time frames.[4] Investing for the long term is the driving force behind returns, and it is easier to invest for the long term in an environment of long-tenured staff, stability, and the passing on of wisdom.

3. To 30 September 2017.
4. As at 30 September 2019.

Past performance is not a guide to future returns.

The third way in which we collaborate is by supporting each other, by owning the portfolio as a team. A common goal is essential – we can disagree and differ and display cognitive diversity more safely because we know we are all seeking the same end, which is long-term outperformance for our clients. Indeed, our variable remuneration is aligned with long-term client outcomes.

It goes without saying that we are not the first to have discovered that working together is a good idea! Steven Johnson's book, *How We Got to Now,* is an explorative romp through the history of innovation, and makes the central point that ideas transmit laterally and build upon each other; no innovation can be singled out as a Eureka moment within one man's brain. Cast an eye over the history of innovation, and it is evident that each invention was not a 'light-bulb moment' in the brain of a lone genius, but a progression of ideas across people, places and industries, each building upon the other. How could Galileo have observed that the earth orbits the sun if the glass industry had not refined its production of lenses? Why would the glass industry have produced lenses if demand for spectacles had not increased after the invention of the printing press?

Cast an eye over the history of innovation, and it is evident that each invention was not a 'light-bulb moment' in the brain of a lone genius, but a progression of ideas across people, places and industries, each building upon the other.

The lesson here is that history is biased; it elevates the individual genius and systematically forgets the cultural surroundings of which they are a product. Call this a Cartesian worldview, call it a basic human need to find meaning and order in a seemingly random progression of events, call it what you like: history apportions success to a special few memorable names. But truth be told, any genius is a product of time and space.

We believe broader adoption of Kahneman's views could benefit society. It is about time the world was kinder to collaboration, which allows us to consider more information and to overcome more behavioural biases in an effort to make wiser decisions. More than that: by collaborating, we create a sustainable culture that should endure, with the institutional memory of our investors benefiting the development of our next generations. Together, we can achieve more.

CURIOUS ABOUT THE WORLD

bailliegifford.com/thinking

Principal Office: Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / www.bailliegifford.com

780 Third Avenue, 43rd Floor, New York, NY 10017
Telephone +1 (212) 319 4633 / www.bailliegifford.com