

MARCH 2021

MONKS RESEARCH AGENDA 2021

*All investment strategies have the potential for profit and loss,
your or your clients' capital may be at risk.*

We are pleased to share our forward-looking Research Agenda for 2021. While we are resolutely bottom-up and stock-focused in our approach, this agenda is an important working document. It provides a framework to help guide where we should hunt for unrecognised growth opportunities, and to suggest where the existing portfolio requires the greatest scrutiny. These are often areas where we see the greatest potential for change, for example in the impact of improved technology or in consumer behaviours, especially where this potential is not widely discussed or anticipated. Such seismic changes are not neatly confined to calendar years and hence our Research Agendas are iterative. The aim is not to conclude on the areas highlighted, but to further our thinking. This means we are better prepared to take advantage of future possibilities and to anticipate meaningful developments, rather than being reactive.



Over the course of 2020, the global pandemic accelerated many trends and shifts that were the subject of previous Research Agendas. Examples include the rising importance of data in healthcare, the increasingly apparent infrastructure-like nature of large technology platforms and the superiority of software tools built specifically for the cloud. Each of these topics have helped focus our research, identify opportunities or deepen conviction and, ultimately, shaped the portfolio. However, this acceleration means that we must work even harder now to stay ahead and anticipate what's next. This Research Agenda is an important step in that process.

MONKS INVESTMENT TRUST IS A UK LISTED INVESTMENT TRUST WHICH HAS BEEN MANAGED BY THE GLOBAL ALPHA TEAM SINCE 2015. THIS PAPER INCLUDES REFERENCE TO A PERIOD, PRIOR TO 2015, DURING WHICH THE GLOBAL ALPHA TEAM WAS NOT RESPONSIBLE FOR THE MANAGEMENT OF MONKS. IT PROVIDES INSIGHT INTO THE INVESTMENT STRATEGY THAT UNDERPINS MONKS, BUT IT IS NOT SPECIFICALLY ABOUT THE INVESTMENT TRUST. WHILE SIMILAR, THE MONKS PORTFOLIO AND CHARGING STRUCTURES ARE DIFFERENT. MONKS MAY ALSO USE GEARING TO BUY SHARES.

GROWTH AND THE VALUE OF DISEQUILIBRIUM

A constant theme running through previous Research Agendas has been that of change. As growth investors, we are naturally drawn towards areas of dynamism and transformation. Periods of change and upheaval present huge opportunities for the innovative and ambitious to challenge incumbents and to reshape industries or create new ones entirely. While an investment approach based on ‘reversion to the mean’ may work during periods of stability, when this status quo is upended the gap between winners and losers can widen inexorably.



For those investors who successfully identified emerging areas of disequilibrium over the past two decades, the rewards have been enormous. Powerful and persistent forces, such as the advent of the internet, the spread of the smartphone, the application of digital technologies and the re-emergence of China have created the opportunity for decades of exponential growth in companies on the right side of these changes. Despite the frequency of references to ‘disruption’ in financial press, our belief is that there are many industries which may only just be starting to enter a sustained period of disequilibrium. Many industries, including communications, entertainment and retail, have been transformed over the last fifteen years. However, pivotal areas, such as healthcare, education, real estate and energy, would still be entirely recognisable to someone working in those industries fifty years ago. As investors looking to identify durable growth opportunities, the likelihood of continued flux, the scope for innovation, and the potential for new value creation across broad swathes of the economy excites us.



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WEB 3.0

The emergence of the internet saw a period of wild experimentation. A plethora of new dotcom companies and business models emerged, benefiting from the open-source nature and interoperability of the internet. This set of common standards was born out of the non-profit nature of the organisations, such as government agencies and academia, that laid the groundwork for the modern internet. However, the bursting of the dot-com bubble dampened some of this early enthusiasm and set the scene for the emergence of the internet we know today. The unique nature of the digital world, a (virtual) world of zero-marginal costs, of increasing returns to scale and of powerful network effects has led to the rise of a number of internet giants, that have captured between them the majority of the time we spend online. The quality of the services these organisations provide has been an enormous and a hugely positive enabling force and the benefits they have brought to users has been immense.

We sense that companies from Amazon and Facebook in the west, to Alibaba and Tencent (owned via Naspers) in the east, must continue to

prove their value to society at large, to innovate, and to increasingly self-police. Some platforms will likely strike the balance well, while others may struggle. As has so often been the case, we believe that we may be receiving valuable early warning signals from China. Not only have we seen heightened regulatory activity, but we have also seen the emergence of self-policing social platforms such as Bilibili, and the breakthrough of vast new consumer apps, such as Bytedance and Pinduoduo, offering innovative entertainment and novel buying experiences. The rapid scaling of these new entrants challenges our thesis that incumbents are protected by scale and that dominant platforms have an enduring monopoly on profitability. Through 2021, we plan to focus even more of our attention on understanding continuing evolutions in the Chinese digital ecosystem and to think carefully about whether these may indicate the potential for similar changes in the west. We also intend to further our conversations relating to the likely sources of future digital innovations and whether we may be about to enter a period with a more diverse range of winners.

THE IMPERATIVE OF SOCIETAL LICENSE

Of course, it is not just technology platforms where proof of societal value is important. Our hypothesis is that the era of aggressive capitalism could be in retreat, to be replaced by a new zeitgeist which promotes ‘doing the right thing’ above short-term profit maximisation. Consumers, governments and society in the west now expect more than the basic provision of goods and services at lowest possible cost; they are demanding an increasing environmental awareness and an ethical approach to employees, suppliers and customers, in addition to a great product at a competitive price. Individuals are becoming more discerning, more assertive and more vocal. This will potentially drive customers towards businesses and brands with ethically-aligned missions and authentic purpose: consumers want to align themselves with brands which they see as sharing their values. This may represent an additional threat to many legacy attitudes and business models, but an opportunity for companies with a strong, positive culture and clear message. Offering consumers what they want, while making them feel good, may be a source of durable competitive advantage. This is likely to increase the importance of understanding a company’s cultural DNA and how they seek to maintain this as they grow. As a private partnership, this is a challenge we have thought deeply about in relation to our own business.

If working with the grain of society is becoming more important in the west, it has long been a prerequisite within China, where it is already clearly understood that a company’s licence to operate can be revoked if its mission fails to align with the broader well-being of Chinese society. The larger the company, the greater the responsibility. Size alone does not



make regulatory intervention inevitable, but it increases visibility and the pressure on a company to be seen to ‘do the right thing’. Businesses which manage these pressures and are pro-active in addressing and balancing the needs of regulators, users, customers and the societies in which they operate are likely to be at a significant advantage to their more reactive and flat-footed competitors. We must be alert to identify the potential winners and losers among our investments from this increasingly difficult balancing act, as well as where new opportunities may present themselves.

THE GREAT ENERGY TRANSITION

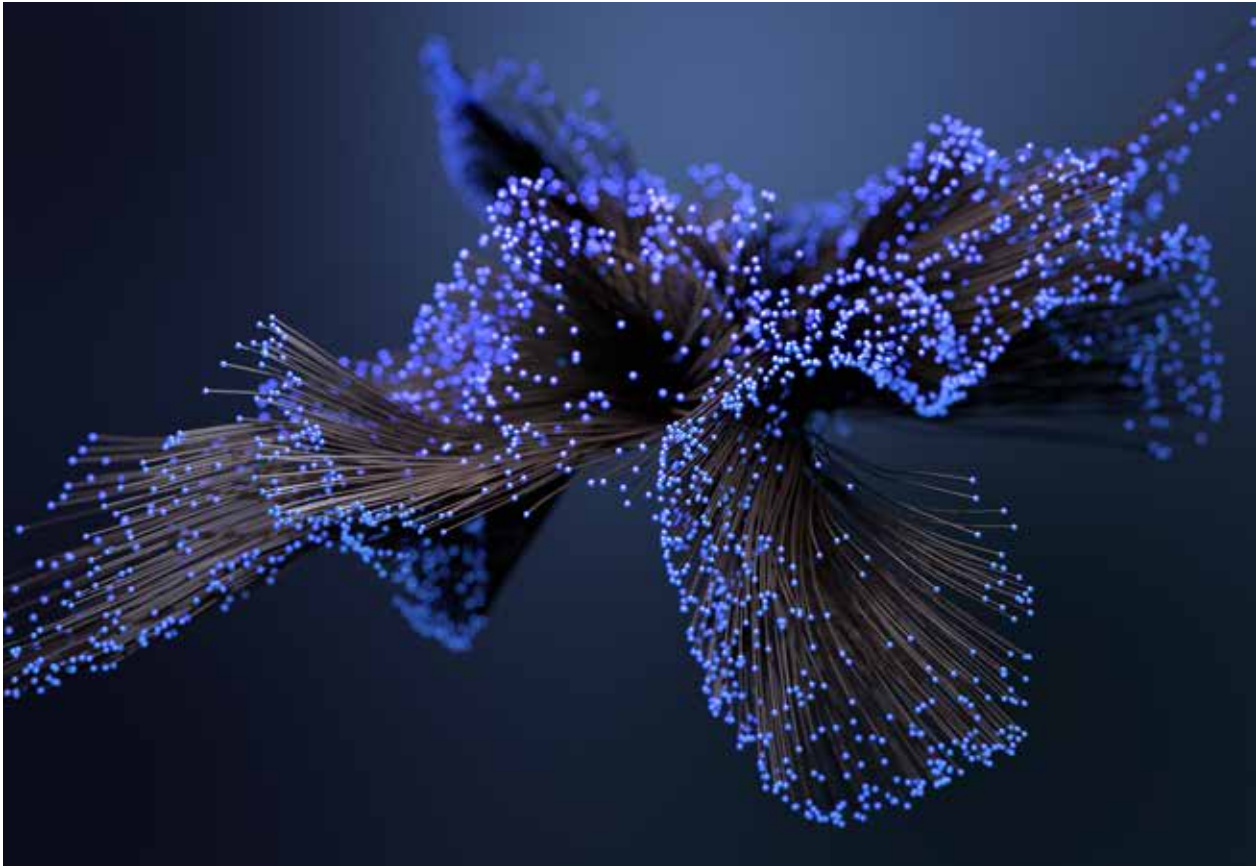
We are at the beginning of a great energy transition, from a system based on fossil fuels to one based on renewable-energy sources. In 2019, renewables accounted for approximately 72 per cent of all new capacity additions worldwide. This is driven not just by a desire for safer and cleaner sources of energy, but also cheaper ones. Renewable energy technologies follow a learning curve, meaning that as cumulative installed capacity increases, price per unit of output falls. This has driven exponential declines in the cost of renewable energy sources such that they are now among the cheapest sources of power. By contrast, no such learning curve exists for fossil fuel-based sources (or nuclear), meaning that this cost differential will only expand. As



the capital cost of renewable power continues to fall, the prospect of marginal energy costs falling to zero is no longer a pipe dream but a distinct possibility. Energy from the sun and wind is, after all, free and the operating costs of renewable power plants are comparatively low.

Our 2020 Research Agenda looked at the enablers and the incumbents of the energy transition. We considered the likely structural and permanent changes to energy supply, demand and prices. We look to build on our understanding this year by exploring two related questions. First, what are the second-order effects for industries as we move from a world of energy scarcity to one of abundance? What might this mean for energy-intensive industries, such as mining? Could new business models emerge to disrupt incumbents? Second, the desire for energy security has shaped global geopolitics for half a century. If we move to a super-abundance of energy sources, what are the new bottlenecks which may emerge in getting this power to where it is needed and how will companies or governments seek to mitigate or exploit these?

Global energy transitions are incredibly rare and have the potential to fundamentally reshape the societies we live in. The implications cannot be fully anticipated at the outset but will be felt for many decades to come. Understanding these changes will be vital for any long-term investor.



CHALLENGING OURSELVES

Regular readers of this document over the years will recognise that we often include one topic that involves challenging ourselves to improve. While our processes and methodology have helped deliver strong absolute and relative performance historically, we must ensure they remain appropriate. The world does not stand still, to use just one metric, an astonishing 90 per cent of data in the world has been created in just the last few years, with the amount of information generated rising by a factor of 10 to 44 zettabytes, or 44 trillion gigabytes. Identifying the valuable insight from among this blizzard of available information remains our core task and one we must always strive to get better at.

One hugely valuable part of our approach has been the input from our Investment Scouts. These are nominated representatives from other investment teams at Baillie Gifford who share their perspectives with us to help us ensure the portfolio is full of future potential. We have recently expanded this network to include Rio Tu from our Shanghai office and Dave Bujnowski as our new North American scout. We expect their insights to be hugely beneficial in exploring various topics within this Research Agenda. As the number of investment teams at Baillie Gifford has expanded to include new strategies

focussed on areas such as healthcare and private companies, we will continue to consider how best to harness the richness of ideas across our investment floor.

We are keen to hear external perspectives as well. The discipline and rigour of fresh challenge is vital to remaining open-minded. We will continue to seek out individuals who can help us to see the portfolio through very different eyes and thereby increase our chances of insight. We will also look to develop and undertake more formal governance audits into factors such as the fair payment of tax, alignment, carbon and capital allocation ambition.

All this builds upon our efforts in recent years to sharpen our thinking with regards to important aspects of sustainability, stretching our time horizons, being more explicit about which companies may have 'outlier' potential and improving our use of probabilities when thinking about the distribution of returns. We believe this ambition has helped us to generate deeper, longer lasting and more valuable insight to the benefit of our clients. However, we cannot rest on our laurels and we will continue to seek out ways in which we can improve.

CONCLUSION

Our task is to find businesses that possess the right elements of vision, ambition and execution to grow at attractive rates for long periods of time. The aim of this Research Agenda is to help us to identify areas where the potential rewards for companies with these qualities are greatest. To explore areas of change, or disequilibrium, where the opportunities for successful businesses to create or capture significant value may be expanding or poorly understood. The year 2020 was traumatic for many, but it also accelerated the reshaping of many industries. Overall, the companies in our clients' portfolios were beneficiaries of these changes. This Research Agenda is part of our endeavour to ensure that the portfolio remains on the right side of change.

PEOPLE

INVESTMENT MANAGERS



Spencer Adair

Spencer joined Baillie Gifford in 2000 and is an Investment Manager in the Global Alpha Team. He became a Partner in 2013 and has also spent time working in the Fixed Income, Japanese, European and UK Equity Teams. Spencer managed the Investment Grade Long Bond Fund whilst being a Fixed Income Investment Manager and the European portion of wider Global portfolios whilst in the European Team. He has also spent time with our Emerging Markets Team. Spencer has been involved in the Global Alpha portfolio since inception in 2005 and has focused exclusively on this portfolio management responsibility since early 2007. He graduated BSc in Medicine from the University of St Andrews in 1997, followed by two years of clinical training in Edinburgh.



Malcolm MacColl

Malcolm is an Investment Manager in the Global Alpha Team. He has been involved in Global Alpha since the product's inception in 2005 and this is his sole portfolio responsibility. He joined Baillie Gifford in 1999 and spent his graduate rotation in the UK Small Cap Team before joining the North American Team. Malcolm managed the North American portion of wider Global portfolios whilst in the North American Team. He is a member of the CFA Society of the UK and became a Partner of the firm in 2011. Malcolm graduated MA in Economics and History in 1998 and MLitt in Economics, Politics and Management in 1999 both from the University of St Andrews.

RISK FACTORS AND IMPORTANT INFORMATION

The views expressed in this report are those of the Global Alpha Team and should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect personal opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

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Please remember that changing stock market conditions and currency exchange rates will affect the value of your investment in the fund and any income from it. You may not get back the amount invested.

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The trust's risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater.

The trust invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.

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 can make use of derivatives which may impact on its performance.

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A Key Information Document is available by visiting www.bailliegifford.com.

Monks Annual Past Performance to 31 December each year

2016	2017	2018	2019	2020
33.8	35.0	-4.8	32.4	42.1

Source: Morningstar, share price, total return.

Past performance is not a guide to future returns.

