Keystone

KIT's board is proposing significant changes to the investment mandate and strategy...

Update
09 February 2021

Summary

Keystone Investment Trust (KIT) is to undergo a shareholder vote on 10/02/2021, with the board seeking approval for proposed changes to the management team and investment strategy.

As detailed under **Portfolio**, the board is seeking to appoint Kate Fox and Lee Qian of Baillie Gifford as named managers for the trust, and change the investment strategy. Going forward, the board is proposing that the trust targets capital growth from a global all-cap portfolio whilst adopting a comprehensive commitment to contributing towards a more sustainable world. This would represent a sharp shift from the existing strategy, which seeks to generate capital growth and income from investment primarily in UK equities.

The board consulted with major shareholders prior to finalising their proposals. As discussed under **Discount**, the subsequent period has seen little disclosed trading activity from notifiable shareholders, suggesting implicit support. The discount has since narrowed sharply, potentially an indicative sign of broader market interest in the new iteration of the trust.

This is possibly a result of the strong alignment of the proposed strategy with **ESG** considerations. Similarly, investors may have welcomed the change in manager given the very strong **performance** of the open-ended fund managed by the same managers, though past performance is not a guarantee of future returns.

Assuming, as we deem likely, the proposals are approved by shareholders, we understand that KIT is likely to employ structural **gearing** going forward. This is one of three differences proposed between KIT's proposed strategy and that of the Baillie Gifford Positive Change fund, along with an allocation to unlisted companies and the ability to hold companies down to a market capitalisation of c. $500m, as discussed under **Portfolio**.

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Analyst's View

Evidently we are about to enter a transition period for Keystone. We believe it is probable that the board's proposed change in strategy will be voted through by shareholders given the market reception to the news (as detailed under **Discount**). Existing shareholders will want to assess whether this change in strategy materially alters their rationale for holding the trust within their portfolio. For shareholders focussed on capital growth and agnostic on the underlying geographic exposure, we suspect the proposed wider opportunity set and investment universe will offer attractions. That said, it is a marked shift for existing shareholders, and being mindful of where we are in the stock market cycle, one that definitively changes both risks and potential rewards.

The shift in strategy is likely to bring the trust onto the radar of **ESG** conscious investors, with the process seeming to us likely to meet even the most stringent of ESG criteria. Along with the broader investment mandate we suspect it should furthermore broaden the shareholder base and attract an increasing retail following, with some evidence for this seen in the narrowing in the discount in recent weeks.

BULL
Highly active strategy focussed on growth opportunities
Likely to appeal strongly to ESG conscious investors
Proposed managers have strong track record in their OEIC product

BEAR
Headwinds to growth factors would likely be a significant challenge to relative returns
Gearing can exacerbate downside, as well as amplify upside
After a transition period, unlikely to offer a significant dividend

Portfolio

Keystone Investment Trust (KIT) is currently awaiting the outcome of a proposal made by the board to fundamentally alter the investment objectives and mandate of the trust, to be voted on at an AGM on 10 February 2021. This includes a proposed change to the managers of the trust, with the board intending to appoint Baillie Gifford as managers subject to shareholder approval.

Presently and historically, KIT sits within the UK All Companies sector, and has accordingly invested for long-term total returns through an all-cap portfolio of predominantly UK equities. The portfolio, for this time, remains invested upon this basis. Details on this historic investment process can be found in our **previous note**.

On 07/12/2020, as part of the release of the annual report for the financial year (FY) 2020, the board announced that they were seeking shareholder approval for a change in investment strategy. Following a strategic review (including third party advice), the board had concluded that a geographically constrained mandate focussed solely on the UK did not offer the best long term investment opportunity to shareholders.

As such, after a consultation period the board opted to move Keystone to a dual mandate. Henceforth, subject to shareholder approval, the trust will:

- Seek to generate capital growth from a global all-cap strategy;
- Adopt a comprehensive commitment to contributing towards a sustainable and inclusive world.

Having identified the desired change in strategy, the board interviewed a range of potential investment managers. They decided that Baillie Gifford had offered the most compelling proposal, and announced their intention to appoint Baillie Gifford the managers of the trust henceforth.

With major shareholders having been consulted as part of the strategy review, as well as the market response to the announcement (see **Discount**) we would suggest it is likely these changes will be approved.

Management of the trust will be undertaken by Baillie Gifford's Positive Change team, which comprises seven investment and impact professionals and which on a day-to-day basis will be led by Kate Fox and Lee Qian, supported by senior impact analysts Michelle O'Keeffe and Edward Whitten. They are further supported by four portfolio advisers from other investment teams within Baillie Gifford.

KIT's proposed strategy is intended to largely replicate the approach that the team have successfully deployed within the open-ended Baillie Gifford Positive Change fund, but to also utilise the benefits of the investment structure. Key differences in this regard will include:

- The ability to invest in companies with a market capitalisation of $500m or greater, compared to a $1bn minimum market cap requirement in the OEIC.
- Introduction of unlisted equity positions, up to a maximum of 30% of NAV (though likely to be lower, with Kate noting she would anticipate an allocation of between 5-10% as probable in the coming 36 months).
- Structural use of gearing, up to a maximum of 10% of NAV at the point of drawdown.

Accepting these augmentations to the strategy, afforded by the investment trust structure, the strategy will otherwise have a similar philosophy and process as the OEIC. Kate and Lee will look to build a global portfolio of between 30-60 stocks (including unlisted positions), invested across a minimum of six different countries and six different sectors. The process will place equal emphasis on the dual investment mandates, and any holding which is not, in the managers' view, aligned with both objectives will not be included.

The positive impact considerations input into stock analysis and portfolio construction is very much a pro-active approach, and designed to identify companies offering solutions as opposed to merely excluding those who fail to meet certain criteria. Kate and Lee work with Michelle and Edward and the teams of analysts to assess a company's potential positive impact. All portfolio holdings must have at least one 'sponsor' of the growth and positive impact potential of the company.

Positive impacts are, of course, subjective, but the team philosophically works around incorporating these around four broad investment themes. These are: 1) Social Inclusion and Education, 2) Environment and Resource Needs, 3) Healthcare and Quality of Life, and 4) 'Base of the Pyramid'.

These themes obviously cover broad bases, and within each there are myriad companies operating often substantially different businesses. Within the OEIC, Social Inclusion and Education, for example, includes companies making a positive change by reducing barriers to doing business through provision of marketplaces or financial services, for small and mid-sized companies which are, themselves, fundamental to broader growth trends and which often account disproportionately for a country's growth in productivity, reduction in unemployment and rising salaries. However, this theme may also include holdings such as firms facilitating greater access to education amongst the population. We have covered what the underpinning considerations are for the different themes further under **ESG**.

Whilst the problems the underlying companies are seeking to address may be varied, the team is seeking to identify companies that are the solution to these problems rather than exploiters of the situation. Idea generation on companies offering innovative products and solutions arises from a variety of sources, with the team being encouraged to read widely on a variety of topics relating to the perceived issues. Opportunities to explore can come from reading academic journals, company meetings, internal discussions, or a variety of other sources.

Ideas are then assessed under Baillie Gifford's six questions framework, looking to ask:

- What societal challenge is the company tackling?
- Is the company's offering sufficiently different, and superior, to the status quo?
- Is there a committed management team in place?
- How does the company treat its stakeholders?
- Is there a strong likelihood of creating a profitable and defendable business?
- Is the business attractively valued?

These questions are designed to help Kate and Lee assess the growth opportunity, the market's current valuation of this opportunity, and gauge the potential upside to the business. It also allows them to assess the competitive position of the company and the efficiency of its capital deployment, which they believe should help to offset risk (defined here as permanent loss of capital).

A separate impact analysis of the company will follow, conducted by the dedicated impact analysts within the team. The team accept there is a high level of subjectivity inherent in this analysis, but attempt to ensure companies have sufficient potential positive impact to justify investment by assessing three different factors: 1) Product Impact, 2) Intent, 3) Business Practices. We have detailed these factors further under ESG. As well as an initial, holistic assessment, the team continues to monitor development of these factors on an ongoing basis and the overall portfolio and each holding are subject to a formal annual review.

As the questions above suggest, the team are looking to invest over a multi-year timeframe, with a five-to-ten-year minimum outlook for all holdings. Kate notes that this longer timeframe is essential to truly see the impact of innovation and internal investment, which will rarely, if ever, show up in quarter-on-quarter operating updates. An average historic turnover ratio of c. 11% within the OEIC suggests this timeframe is largely being met within the portfolio, though Kate notes that turnover in 2020 rose towards c. 20% of the portfolio. This was , she notes, in reflection not of the changing economic backdrop, but instead by investments in a number of exciting opportunities that the team were seeing in areas such as sustainable agriculture and biotechnology. These were funded by some complete sales and also some reductions in holdings following a reassessment of the upside following strong share price gains.

This process includes ongoing monitoring of companies and the portfolio, with formal reviews and assessments of the potential upside and scope to deliver positive change. Positions are usually introduced at a c. 2-3% weighting, with the team tending to prefer to run their winners and allow them to grow within the portfolio. Ongoing portfolio management includes monitoring operational developments and the impact the company is having, with the greatest weight generally given to the opportunities with the perceived greatest growth and impact potential. We can see the top-ten holdings of the OEIC strategy below.

Baillie Gifford Positive Change Fund: Top-Ten Holdings

HOLDING	%
Tesla	9.7
M3	7.6
TSMC	6.1
ASML	5.5
MercadoLibre	5.2
Moderna	4.3
Illumina	4.1
Dexcom	3.6
NIBE	3.1
Umicore	3.0
Total:	**52.2**

Source: Baillie Gifford, as at 31/12/2020

Conversely the team look to exit positions where the growth opportunity has diminished as the company has matured. This may be because they believe the industry tailwind has diminished, or because the company's ability to take further market share has.

The team will also exit stocks where the positive impact is no longer substantial, noting, for example, that they have exited positions in the OEIC where the growth in the non-impact proportion of the portfolio has sufficiently outstripped that of the positive impact activities that the latter were no longer consequential. As well as being assessed on an ongoing basis, the positive impact is formally reviewed annually, in an Impact Report which will be made available to shareholders on an ongoing basis.

As we have noted above, the team are keen to use the closed-ended structure to invest into unlisted companies. They will be looking to identify companies where the injection of equity capital Baillie Gifford can offer can prove to be a substantial catalyst in driving growth in the business. Unlisted holdings are typically expected to exhibit much the same characteristics as the listed holdings. As with listed holdings, the team are looking for companies with a value of at least $500m. They will have recourse to a valuations team to assess the value of an unlisted business, who will look at the scale of operations and apply a suitable valuation multiple based on listed peers.

Valuations of the underlying businesses will be undertaken on a rolling quarterly basis, with the dates of these valuations staggered throughout the quarter. These valuations will also be subject to external third-party assessment. Once conducted, the company's valuation will remain static until the next valuation is complete, with an associated read-through to NAV. However, the staggering of valuation updates should mitigate any artificial flattening of NAV volatility relative to the share price, even if and when the portfolio is near to its full target allocation of 20-30% of NAV.

Gearing

KIT currently has reported gearing of c. 10% (as of 01/02/2021). Going forward, we understand there will be more of a structural approach to gearing than has historically been the case, a change that is being driven by the board in conjunction with the proposed new management team. The board has outlined a restriction that gearing will not exceed c. 10% of NAV at the point of drawdown. At the same time, the management team have noted that the ability to structurally gear is one of the attractions for the trust structure that they believe can enhance shareholder returns.

Whilst no official policy can, obviously, yet be determined as such, we believe it is reasonable to expect KIT (assuming the new investment strategy is approved by shareholders, as we would expect) will tend to exhibit gearing of between 5-10% going forward. Much of the variation in estimated gearing levels, we would expect, would be a function of NAV fluctuations as opposed to attempts to tactically adjust net positioning by the management team in reflection of market conditions.

Nonetheless, as discussed under **Portfolio**, the proposed management (in their existing strategy) continually monitor what they deem to be the upside potential across their portfolio and covered stocks. In a liquidity driven or otherwise irrational and indiscriminate sell-off, the "10% at the point of drawdown" could prove inhibitive to building positions in increasingly attractive positions if the team were to run the portfolio at 10% gearing structurally. From our conversations with the proposed new team, we would expect them to allow themselves a small liquidity buffer in case of such events (particularly given the intention to allocate increasingly to illiquid private company holdings).

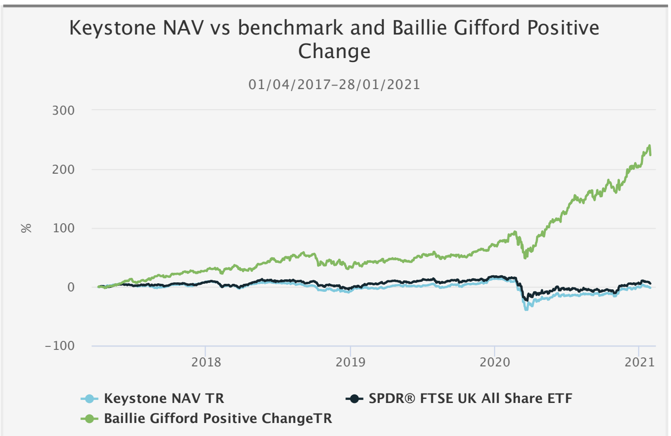
As a footnote on the capital structure, we note that the trust also has historic preference shares with a book cost of c. £250,000 and paying 5%, or less than 0.01% of net assets.

Performance

James Goldstone of Invesco was appointed sole manager of KIT on 01/04/2017. Since this date, KIT has produced NAV and share price returns of c. -2% and c. 13.1% respectively as at 28/01/2021. This represents underperformance of the AIC UK All Companies peer group, which saw unweighted average NAV and share price returns of c. 12.7% and c. 19.1% respectively, and NAV underperformance of the FTSE All-Share (as represented by the SPDR FTSE All-Share ETF), which saw returns of c. 5.3% over the same period. Though not a like-for-like comparison (given the different investment mandate), we note that the Baillie Gifford Positive Change fund, run by the proposed new management team with the same approach as will be used within KIT if approved, generated gains of c. 223.6% over this period (against a benchmark (MSCI ACWI) return of c. 44.3%).

Over the past 12 months to 28/01/2021, KIT shareholders have experienced NAV and share price returns of c. -11.6% and c. -3% respectively, compared to peer group average NAV returns of c. -5% and share price returns of c. -3.9%. The FTSE All-Share has fallen by c. -8.2% over this same period. Meanwhile, the Baillie Gifford Positive Change fund has gained c. 84.4%, against an MSCI ACWI return of c. 11.6%.

Fig.1: Keystone NAV Returns Since Launch Vs Benchmark And Baillie Gifford Positive Change OEIC

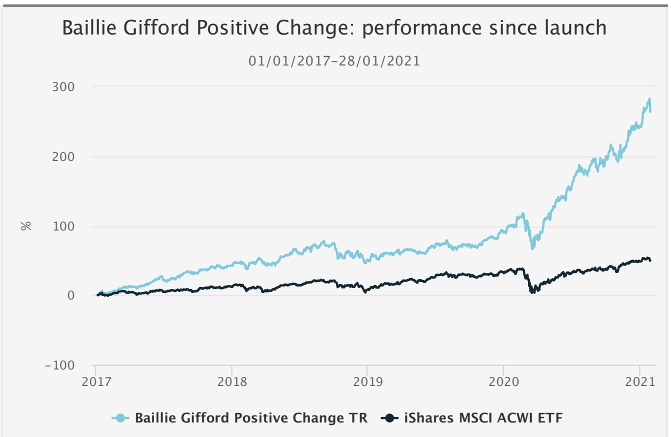


Source: Morningstar

Past performance is not a reliable indicator of future results.

Clearly, assuming the change in strategy and manager proceeds as proposed by the board, these comparisons between KIT returns and the UK All Companies peer group (and FTSE All-Share) become invalid. Instead, we can see below the performance of the open-ended strategy (Baillie Gifford Positive Change fund) managed by the proposed new managers from launch on 01/01/2017 to 28/01/2021. Returns have been very strong over this period, with gains of c. 263.7%, and compare favourably with their benchmark, which returned c. 49.8% over the same period.

Fig.2: Baillie Gifford Positive Change Relative Returns To Benchmark Since Launch



Source: Morningstar

Past performance is not a reliable indicator of future results.

Returns have been exceptional in recent months in the open-ended strategy, with the perceived structural societal shifts resulting from the fallout of the COVID-19 pandemic and associated lockdown serving to catalyse outperformance of many of the constituent companies. Many of the portfolio winners are/were widely regarded as likely beneficiaries from trends such as increasing online consumption and remote working, trends which the lockdown policies adopted across much of the world were deemed to accelerate. Other positions, such as pharmaceutical company Moderna, were rapidly seen as likely to be integral to providing solutions to problems caused by the onset of the pandemic (in Moderna's case, very directly, with the company one of the first to trial a vaccine). The significant holding in Tesla, which saw its stock rise by over 700% in 2020, was also clearly a major boost to returns for the fund.

Whilst these returns from the open-ended strategy have clearly been very strong, there is no guarantee that KIT's returns will follow the same trajectory going forward. Shareholders should be aware that whilst returns from KIT have been disappointing, the new strategy is very different and brings a very different set of risks (as well as rewards). As many industry commentators have pointed out, the UK equity market is historically cheap relative to international comparators, whilst 'growth' stocks across the globe are currently attracting very wide valuation premiums compared to the rest of the market, relative to history. Whilst we do not dispute the attractions of the new strategy, we feel it is valid to highlight the stark differences between the 'old' and 'new' KIT. Investors who have explicitly allocated to KIT for exposure to the UK market may find the new strategy does not match their internal asset allocation considerations; by contrast, many prospective new shareholders may prefer the unconstrained model being proposed.

Dividend

KIT currently pays a dividend which yields c. 3.4% (as at 01/02/2021) on a historic basis. As noted under **Portfolio**, the board of KIT is currently proposing a change in both management team and strategy. Assuming this is approved by a shareholder vote, the board has noted that they anticipate income generation to fall substantially in the future. Under the proposed new investment strategy, substantial dividend generation from the underlying portfolio would seem somewhat at odds with the investment approach, in our view, as the managers are more likely to favour companies who are reinvesting excess free cash flow with a view to improving their competitive position and advantages.

Accordingly, significant dividends paid from revenue seem unlikely going forward. Although not explicitly ruled out, the omission by the board of any mention of the possibility of paying dividends out of capital seems an implicit move away from considering dividend generation as a significant part of KIT's total returns.

Over the short term, the board of KIT has confirmed its intention to ease the transition in returns profile by supporting the dividend over the coming 12 months through the use of revenue reserves. We note that, at the most recent annual reporting period (as at 30/09/2020), KIT had revenue reserves amounting to c. £4.84m. However, the board noted that this was to fall following the payment of the final interim dividend, with the subsequent revenue reserve estimated to be c. £2.37m. This equates to revenue reserve cover of c. 0.34x the full financial year (FY) 2020 dividend of 11.2p per share.

When we assess the differential in ex- and cum-income NAV reported (as at 28/01/2021), we estimate that KIT has revenue reserves of c. 5.8p per share at present, based on the above pre-existing revenue reserves. With a FY 2020 dividend of 11.2p per share, this would represent revenue reserve cover of 0.52x. We thus surmise that the trust remains in a reasonably strong position to maintain distribution levels for the current financial year, but that we expect dividends after FY 2021 to fall.

Management

KIT's board has proposed a change of manager, which is to be ascertained by a shareholder vote at 10/02/2021. As part of a shift in investment strategy, the board is proposing awarding the management mandate to Baillie Gifford, with management duties to be undertaken by Kate Fox and Lee Qian, supported by senior impact analysts Michelle O'Keeffe and Edward Whitten of the Baillie Gifford Positive Change team.

The Positive Change team comprises seven investment and impact professionals, and are further supported by four Portfolio Advisors from other investment teams in Baillie Gifford. The team will have access to ideas and discussions with other teams across Baillie Gifford, including the dedicated Private Companies team.

Kate joined Ballie Gifford in 2002, and is an investment manager and partner of the firm. Lee joined Ballie Gifford in 2012, and is an investment manager. Both Lee and Kate are co-managers of the Baillie Gifford Positive Change fund, with assets of over £2bn.

Discount

KIT currently trades on a discount of c. 3.6% as at 01/02/2021, considerably narrower than it has typically traded over much of the previous five years (an average discount of c. 9.1%). We would attribute much of this narrowing to the announcement of Baillie Gifford as a potential new manager, and the strategy change which came in mid-December 2020, and as highlighted in the chart below.

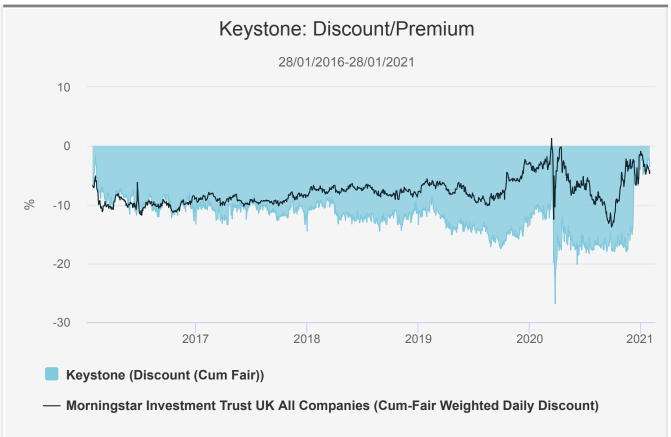
However, we would highlight that whilst the discount narrowed sharply in the wake of the announcement of the proposed change in strategy, we simply do not know whether we will see selling or buying activity subsequent to the vote from any of the significant shareholder interests, though we note that the board consulted with major shareholders prior to releasing their proposals. Based upon the previous board estimate (to 30/11/2020) and subsequent regulatory announcements, we estimate that notifiable shareholders (holding in excess of 3% of shares) held c. 59% of shares. This represents a slight reduction in the number of shares held by notifiable shareholders subsequent to the announcement but, given this reduction is marginal and followed substantial discount narrowing, we think it most likely attributable primarily to internal portfolio rebalancing and not an expression of opposition to the proposed strategy change.

Instead, it may well be that these shareholders have maintained their shareholdings as a sign of tacit approval, and we consider this the most plausible scenario (especially considering they were consulted in the lead-up to the proposal). In this case, the narrowing of the discount could reasonably represent an increase in market interest based upon the proposed change in manager.

Going forward over the long term, we note that investors will have a degree of variability in NAV calculations when assessing the reported premium/discount. This is due to the intention to increasingly incorporate unlisted equities into the portfolio with the new strategy. We understand that these will not see their valuations adjusted on a day-to-day basis, but instead will see their valuations updated on a quarterly basis. This quarterly valuation date will vary by company, so there will not be substantial adjustments on a set quarterly basis, but nonetheless sharp market fluctuations (in either direction) may not be immediately reflected in fair-value adjustments to unlisted companies and, by extension, NAV.

In the current financial year (commencing 01/10/2020) the board has repurchased into treasury a total of c. 424k shares, at a weighted average discount of c. 17.2%. The last transaction (at the time of writing on 29/01/2021) was undertaken on 17/11/2020. The board has not given an indication of whether its buyback policy will change with the change in strategy.

Fig.3: KIT: Discount/Premium



Source: Morningstar

Past performance is not a reliable indicator of future results.

Charges

Currently KIT has an OCF of 0.55% compared to an unweighted UK All Companies sector average OCF of c. 0.75% (Source: JPMorgan Cazenove). However, we would expect that the OCF will rise in the near-term if the proposed change of manager is voted through in line with the board's recommendation. Where previously a management fee of 0.45% p.a. was applied, this is set to rise under a tiered management fee arrangement subject to shareholder approval. This management fee will be charged at 0.70% p.a. on the first £100m of market capitalisation, 0.65% on the next £150m and 0.55% p.a. thereafter. Based on the current market capitalisation (as of 26/01/2021), this would equate to a management fee of c. 0.67%.

However, by contrast, no performance fee will be charged under the proposed arrangements. This is currently charged at 15% of the outperformance of NAV over the FTSE All-Share on a rolling three-year basis, with a 1.25% per-annum hurdle rate and a total fee cap of 1.5%.

The board has not yet clarified any proposed plans to reclassify the trust into a different sector/peer group. However, we note that the mandate proposed would not be consistent with the trust remaining in the UK All Companies peer group, and would more likely see KIT be classified within the Global, or possibly the Environmental, sector going forward. The Global sector currently has an unweighted average OCF of c. 0.67%, whilst the Environmental sector has an unweighted average OCF of c. 1.54%.

The KID RIY for the trust is currently 1.25%, but we would caution that this figure is likely to change going forward as the fee structure is adjusted, and that current figures are a poor guide to realistic expectations of future charges.

ESG

The board of KIT is currently proposing a change of management as part of a broader change in strategy. This includes moving to a mandate with dual investment objectives, one of which is to "contribute towards a more sustainable and inclusive world by investing in the equities of companies whose products or services make a positive social or environmental impact". Clearly the board intends that KIT be strongly ESG aligned going forward, then, if the proposed changes are approved.

Philosophically, the proposed management team note their beliefs that investment should provide tangible benefits from productivity improvements and tangential considerations. Whilst they note there are significant challenges and issues facing the world, they highlight their belief that these challenges represent an opportunity too, which innovative companies can help to meet.

ESG, as we discuss under **Portfolio**, is deeply integrated into the stock selection and portfolio construction process. Assessing the societal challenges the company is seeking to address is one of the key considerations of the managers, and separate impact assessments will be carried out on every stock by a dedicated impact analyst. Every position must have a 'sponsor' as to the positive impact the company and its products/services can achieve.

These positive impacts are considered under four themes:

- Social Inclusion and Education
- Environment and Resource Needs
- Healthcare and Quality of Life
- 'Base of the Pyramid'

Social Inclusion and Education is targeted at solutions to rising income and wealth inequalities across the world. This includes companies improving the quality and/or accessibility of education, or companies which through products and services foster greater economic dynamism and associated uplifts to productivity, living conditions and real salaries.

Environment and Resource Needs companies seek to address a variety of issues, including those surrounding agricultural yields and ensuring increases in food production can meet projected population increases whilst mitigating their environmental impact. Other companies may be directly or less directly associated with greater resource efficiency, and reducing the environmental impact of a variety of economic activities.

Even where uplift in economic terms is being realised, the managers note that this is not necessarily being matched by improvements in health or happiness. Healthcare and Quality of Life thematic companies will be those that the managers deem to be materially and actively improving the quality of life of persons across the world, or the effectiveness and efficiency of healthcare systems.

However, that economic uplift is not necessarily omnipresent at yet, and the final theme, Base of the Pyramid, seeks to identify opportunities both concurrent and conducive to economic growth and improvements in living conditions in poorer regions of the world. Companies within this theme will be expected to offer goods or services which are addressing the basic and aspirational needs of persons across the globe who are at or towards the bottom of the global income ladder.

The positive impact of individual companies is assessed separately to the investment analysis, but is considered informative and concomitant to the former. Dedicated impact analysts assess three factors in this regard: Product Impact, Intent, and Business Practices.

Product impact is a key reason why companies will make it into the portfolio. The assessment of product impact considers the relationship between the product and the problem; the breadth and depth of the impact; and the materiality of the product or service, both in the context of the business and the challenge.

Intent considerations will assess the forward-looking strategy, seeking to ensure it is aligned with the stated goals and the positive impact the team foresees, and ensuring this strategy supports the anticipated positive outcome. They will also seek to assess the degree to which actions are backing up verbal commitments, and to which structurally embedded processes should render these positive behaviours recurring. The degree to which these processes can also potentially impact wider industry practices is also evaluated.

A similar tangential impact is considered upon supply-chain practices when the impact analyst assesses Business Practices. This includes a company's attitude towards the environment, how they treat their key stakeholders such as their customers, suppliers and employees, and how they approach their own governance. This analysis looks to ensure good practice and transparency. The team are seeking to identify industry leaders in this regard.

All of these factors will be considered when the entire portfolio and all constituent companies are subjected to an annual impact review, which Baillie Gifford will make public. This is further assessed by an external third party, and is an attempt to both qualitatively and quantitatively understand the impact that the companies held have made across a range of metrics.

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