
BAILLIE GIFFORD UK GROWTH FUND PLC

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Milena Mileva and Iain McCombie, co-managers of the Baillie Gifford UK Growth Fund plc, give an overview of the trust following the board's decision to move the mandate to Baillie Gifford.

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Anzelm Cydzik (AC): I'm joined today by Milena Mileva and Iain McCombie, co-managers of the Baillie Gifford UK Growth Fund. Iain, Milena welcome. Iain, following the board's decision to move the mandate from

Schroders to Baillie Gifford, what's changing in terms of the company's investment policy and objective.

Iain McCombie (IM): Well, there'll be no changes to the company's investment policy and objectives. So, that means that we'll be trying to invest for capital growth from investing in UK equities, with the aim of trying to get a total return in excess of the FTSE All-Share Index.

AC: Ok, so what is changing?

IM: Well, you will see a very different portfolio from what happened before. So, for example, we're very much going to have an explicit focus on growth equities because that is very much the Baillie Gifford investment style. The portfolio itself will also look very different, there will be about 40 companies within that so a very concentrated portfolio. There will also have high active share of about 85%. Which means it's very different from the index. And lastly, we'll have very much an explicit long-term investment horizon of about five years, so you should expect very low portfolio turnover. And what that means putting it all together is that you will have a very interesting and differentiated portfolio for shareholders.

AC: Thank you, well Milena, how would you describe the investment process?

Milena Mileva (MM): Well the essence of our approach really is that we are purely stock driven, very long-term growth investors. Our aim is to identify businesses with large opportunities, sustainable, competitive positions, and very strong corporate cultures, businesses which can deliver superior earnings growth over many years, as a result of which our portfolio is very different from the index.

AC: Ok, well how will the decision making process work in practice Iain, as co-managers of this vehicle?

IM: Well, I think the first thing that is important to say is that the UK Equity team at Baillie Gifford has a very tried and tested philosophy and process so we know what we are trying to do. We also have a very experienced team, and I can't stress that enough. There is a team of seven, and there are four fund managers who have in total over 80 years of investment experience, all at Baillie Gifford. The benefit of that is that when we discuss a stock, we do it together, so the benefit of that is you get the combined investment knowledge and expertise of the Baillie Gifford team. Now in terms of how we work together, Milena and I have worked very closely together for six years now so we know each other and we know exactly what we are trying to do. What we are trying to do really, for the company, is to put together a portfolio of our best ideas and I think we are very excited about the portfolio we have put together.

AC: As this is a best ideas portfolio, are you able to elaborate on some of the themes and some of the companies investors are likely to see in this portfolio?

MM: Yes of course I'll give you some flavour, there's always a risk of over-generalising, but there are a number of broad areas that have provided fertile ground for us as bottom-up stock pickers. The first one is what we call growth niche financials. Companies that we think stand out in a pretty commoditised industry, a great example here is Hargreaves Lansdown, which we think enjoys multi-decade growth opportunities in its platform business.

A second area is consumer businesses, consumer facing businesses, provided they have strong brands and loyal customers, we think these types of companies can compound earnings over many years. A number of the consumer facing businesses we are keen on have also leveraged digital technology to make their industries much more efficient and really drive an excellent customer proposition. Relevant examples here are Just Eat, AutoTrader, Rightmove. Thirdly, we actually think the UK stock market is home to some really exciting but under-appreciated business to business champions.

AC: Sorry, when you say 'business to business champions', what exactly do you mean by that?

MM: Yes these are sort of under the radar companies from the point of view that they have quite low levels of awareness amongst the general public, but in fact they have exceptionally high levels of awareness amongst the professionals that use their services. Indeed we would argue that many of these companies have world-leading positions in their fields. A great example, here is Gloucester based engineering firm Renishaw.

Then, finally, we have also identified a number of latent growth opportunities, where we think management action can crystallise long-term value. A good example here is pub company Mitchells & Butlers.

AC: Ok well Iain, Milena has touched upon some exciting growth companies as you see it as a team but is now really the right time to be investing for growth?

IM: Well, neither Milena nor I have a crystal ball. We have absolutely have no idea what the stock market is going to do over the short to medium term, nor do we know which investment style is going to be the best in the years ahead. So what we're going to do is stick to what we've always done which is to be true to our investment beliefs, which means to identify and own attractive growth companies and own them for as long as possible for shareholders.

Why do we do that? Well, our core belief is that in the long run, share prices follow fundamentals. So, if you can get a portfolio of companies with above average growth we think that ultimately the stock market will reward shareholders.

AC: Lastly Milena, as a UK investor you have probably heard it said many times that the UK market is very efficient. So shouldn't investors merely be investing in an ETF or an index tracker when looking for exposure to UK equities?

MM: No we disagree with that. In fact we think that the UK stock market provides ample opportunities for high-conviction, active managers, such as ourselves to add value. Our reasoning really is that the UK index is dominated by a small number of very large and well-known companies that frankly, we find rather dull as investments. What is more important perhaps, is that we also think that some of these businesses could be significantly disrupted in the long run.

AC: Sorry, when you say disrupted, what do you mean by that?

MM: What I mean by that is that there are, we believe there are, some significant changes afoot in a number of sectors, such as healthcare, energy, financials, which might mean that these big index constituents are threatened in the future.

So, to our mind, for those investors who are willing to cast their eyes above the obvious and uninspiring names, there are actually a number of exciting and under-appreciated UK companies which we think can deliver superior earnings and market returns for many years.



AC: Okay, in summary, you're growth investors, managing a concentrated, bespoke portfolio of best ideas, active investment, low turnover, five-year investment horizon?

IM: Absolutely

AC: Iain, Milena, thank you.

IM: Thank you.

