BAILLIE GIFFORD EUROPEAN GROWTH TRUST PLC

Baillie Gifford are now managers of the re-named Baillie Gifford European Growth Trust plc. In this film, co-managers Stephen Paice and Moritz Sitte outline why they have repositioned the portfolio to focus on the 40 or so companies that they believe are most likely to deliver outstanding growth over the next five to ten years.

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This film was produced and approved in November 2019 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

Anzelm Cydzik (AC): I'm joined today by Moritz Sitte and Stephen Paice, co-managers of the Baillie Gifford European Growth Trust. This is the European investment trust that was formerly managed by Edinburgh Partners. Stephen, Moritz, welcome.

Stephen Paice (SP): Hi.

Moritz Sitte (MS): Good morning.

AC: Stephen, following the board's decision position to move the mandate away from Edinburgh Partners to Baillie Gifford, are there going to be any notable changes in the company's objective and policy, going forward?

SP: I think the most notable change will be our move to having an explicit focus in capital growth rather than capital income. And this is entirely logical and unsurprising, given our investment style which is growth investment. We're looking for entrepreneurial companies investing for future value creation.

Beyond that, we're proposing a couple of changes. We would like to expand the range of holdings from 30–50 to 30–60. We would like the ability to invest up to 10 per cent of total assets and to purchase in unlisted equities, and we'd like to be able to use gearing up to a maximum of 20 per cent based on the listed parts of the portfolio. We will obviously ask shareholders to vote in these proposals at the AGM on January 23rd next year.

AC: What will these changes actually mean in practice?

SP: In practice, this means that we're going to reposition the portfolio towards growth. We want to reposition the portfolio towards companies where we think growth has been mispriced. But beyond that, the turnover will remain very low. Our investment horizon is between five and ten years. The active share will probably creep up. Probably above 90 per cent. What we get from that is a portfolio which will be very differentiated but will also give us the best chance about performing over long period of time.

AC: In terms of unlisted there, what is the thought process here? Are shareholders going to wake up the day after the AGM to see a portfolio of 10 per cent in unlisted equities?

SP: No, I think that this will be a slow process. I think that unlisted equities may contribute 5–10 per cent of the total portfolio within three years or so. So a fairly slow conservative process.

AC: You're both co-managers of the Baillie Gifford European Fund. That doesn't invest in unlisted equities, so that's one notable differentiator here straightaway, going forward. But what are the differences people are likely to see between the open-ended fund that you both co-manage and this particular investment trust?

SP: Open-ended fund will form the core part of the trust. But as you said, the trust has a specific structure which

enables us to invest in unlisted equities. But it will also enable us to go further down the market cap scale. We can now invest down to 500 million market cap, which probably adds another 300 or so potential ideas to the pot, and we'll be able to utilise gearing, which open-ended structure doesn't allow, which enables us to maximise potential returns.

AC: Moritz, how would you describe the investment approach and process?

MS: Our aim is to identify Europe's great growth companies and then own them for the long term. That means we look for businesses with substantial growth opportunities, with durable competitive advantages, and with strong management teams typically in the form of owner-managers. Our approach has three core tenets.

We are very much resolutely bottom-up stock pickers, we focus on growth companies, and we have adopted a long-term mindset. And the result is a portfolio that's very different from the market, from the index.

AC: How will the decision-making process work in practice between the pair of you in terms of getting ideas into the portfolio and position sizing?

MS: The first thing to emphasise is that we have chosen a very collaborative team-based approached to investing, to decision making. There are nine investors who are covering European equities across the market cap spectrum, and everyone's day job, be it the day job of the portfolio manager, or the analyst is to do bottom-up research.

All research on existing holdings but also on new ideas is discussed by the whole team. Stephen and I then come together to decide what goes in the portfolio, what doesn't go in, and also the holding sizes, of course. We've both worked together as decision makers for the European Fund since 2014.

AC: Stephen, as this is a best ideas growth portfolio, are you able to give us a flavour of the types of companies we're likely to see in this portfolio going forward?

SP: Sure. Europe still has a reputation for not being a great place to invest, but there are still some areas where Europe does excel. And I think one of those areas would be industrial consolidators. If you think about companies like Atlas Copco which manufactures air compressors, Nibe which manufactures energy efficient heat pumps, or even IMCD which is a Dutch speciality chemicals distributor.

Now these are not particularly glamourous companies. But when you look at the fundamentals, they have extremely attractive growth opportunities. They operate in very fragmented markets and are run and managed, in some cases, by people that we trust to allocate capital over a long-term manner.

I think another area would be consumer discretionary brands, which Europe has some of the best in world. Think of companies like Adidas, Richemont which owns the Cartier brand, Kering which owns Gucci. These are companies which we think will be able to grow profitably for many decades.

I think another area, which is a relatively new area, would be companies that exhibit network effects or have platform business models. Companies like Spotify, Zalando which is a fashion marketplace, and Adevinta which is an online classified platform. These are probably some of the most entrepreneurial businesses in Europe. They are a force of disruption and potentially have phenomenal business economics.

AC: Thank you. Moritz, Stephen. Touched on a number of exciting growth investments there. But is now really the right time to be investing for growth?

MS: I think right now is always the most difficult time to invest. In reality, Stephen and I spend very little time worrying about whether growth as a style is in favour or not. We really try to focus on identifying great growth companies and then owning them for the long run, and I think that strategy can work extraordinarily well over the long term. And I think that's what really matters in the end for wealth creation.

AC: In summary, this is a best ideas actively managed growth portfolio of European listed and unlisted equity ideas, that'll have a high active share and low turnover.

SP: Yes.

MS: Yes.

AC: Moritz, Stephen, thank you.

SP: Thank you.

MS: Thank you.

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