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# *BAILLIE GIFFORD MULTI ASSET INCOME FUND - QUARTERLY UPDATE*

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Fourth quarter 2019

Investment managers Nicoleta Dumitru and James Dow give an update on the Multi Asset Income Fund.

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**Nicoleta Dumitru:** One of the major recent topics of discussion we've had in the Multi Asset Income team is Brexit, and with the UK now heading to the election polls, we have been thinking hard about the possibility of political change. Although the opinion polls currently predict that the Conservative Party will win more seats, it's part of our job as investors to be prepared for every possibility.

So we have been discussing about a Labour government as part of our scenario analysis. This is particularly relevant to our infrastructure investments. We like the asset class because it offers an attractive income stream to investors, and importantly, that income is not exposed to the ups and downs of the underlying economy.

But the Labour Party has been clear that they are against the private ownership of some forms of infrastructure such as water utilities or regulated utilities, and have promised that once in power, they will seek to nationalise those assets.

What our discussions have highlighted to us is that owning a genuinely diversified portfolio of infrastructure investments helps to mitigate those unpredictable political risks.

For example, you will see that within the portfolio, we have several holdings in renewable energy funds in the UK. In our view, renewable energy funds are less likely to be targeted, whichever government is in power. Not only are those funds helping to address climate change, but they also offer a relatively low-risk source of income to investors.



We have been also adding to our US utilities exposure. We like the US utility sector because it not only offers an attractive income, but regulators in US are also encouraging investment and growth in the sector. And we see that as translating into capital and income growth into the future. Overall, we are excited about our infrastructure investments, and we currently have almost 20 per cent of the Multi Asset Income Fund allocated to infrastructure.

**James Dow:** One of the core objectives of the Multi Asset Income Fund is to deliver a resilient income stream, resilient meaning stable, an income that our investors can rely on. As part of meeting that objective, we try to make sure that their portfolio is always positioned such that whatever happens in the world economy, whatever happens in world politics, our income won't be compromised.

We saw great example of that over the summer when tensions between the US and China over trade and tariffs really started to escalate. And that led us to look at the portfolio and think about how it might impact the different asset classes that we're invested in.

As a result of that, we decided to take some money out of emerging market government bonds, where we felt that investors could be quite surprised by that slowdown in growth. At the same time, we felt that US government bonds looked particularly attractive.

Our view was that investors were underestimating the defensive characteristics of that asset class. That's worked out well over the past several months, and we've seen good price appreciation in those assets since. And it's really highlighted to us the advantage of having so many different asset classes that we can invest in.

But whatever we do over the months ahead, it will always be with that objective in mind of keeping a resilient income stream for our investors.

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