BAILLIE GIFFORD AMERICAN FUND – MANAGER INSIGHTS

Ben James gives an update on the positioning and activity of the American Fund portfolio.

The value of your investment and any income from it is not guaranteed and may go down as well as up and as a result your capital may be at risk.

This film was produced and approved in May 2020 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

Ben James: Baillie Gifford continues to focus on ensuring our people are safe and on looking after our clients and their portfolios. Our thoughts are with everyone affected during this time. We're all well on the US Equity Team, and thanks to the firm's significant investment in technology and connectivity over the years, the day-to-day management of the portfolio remains unaffected.

What we've been doing

It's during challenging times that sticking to our investment philosophy and process really matters. Our long-term, team-based approach, and Baillie Gifford's supportive culture, protects us from many of the stresses surrounding investing during a crisis.

Given current conditions we're pursuing three forms of monitoring:

Firstly, we conducted a detailed examination of the financial resilience of the portfolio's holdings in March. In aggregate it scores well: the portfolio has a net cash position against a market debt to equity ratio of 57 per cent. However, companies must first survive before they can prosper so we've re-examined the financial stability and balance sheet strength of all holdings and analysed their ability to adapt their cost bases, as well as considering the strength of their suppliers and customers. The outcome of this initial review is that we're confident the portfolio is well-positioned to weather ongoing uncertainty. We've not taken any immediate action as a result of this work, but it forms a baseline for monitoring.

Our second avenue of exploration is a review of our 'Forward-Looking Hypothesis' for holdings where we think the arguments might have shifted recently.

Finally, we are working on new opportunities. When this crisis passes, the world we return to may not be the one that we left.

Portfolio Positioning

We believe we're invested on the right side of creative disruption driven by technological progress. The future of commerce powered by the internet, transformation of healthcare treatments and the battle for our leisure time attention are key themes. The current situation may well increase the pace of disruption. Technologies and companies that reduce friction, allow us to continue consuming and businesses to function, will be more highly prized. While it's still early to draw strong conclusions about long-term changes caused by the pandemic, we've started to look for opportunities that have arisen due to extreme volatility. And we're establishing a framework for analysing areas of potential further disruption to traditional behaviours that are now unwinding.

Foremost in our minds is enterprise software. We feel that this crisis will accelerate the shift towards cloud computing and that the digitisation of businesses will drive growth for many years. There are several companies with strong competitive positions. In the first instance we've taken a holding in Workday, the cloud-based enterprise resource planning software provider.

To fund the purchase of Workday, we have sold Danaher spin-off, Fortive (an industrial conglomerate), and education company, 2U. Muted organic growth and questions over competitive advantage were key issues for both these companies.

Performance

Now more than ever we urge clients not to place much emphasis on our performance over short periods. Our focus is on the next five years and beyond, but we understand the desire for current information. The fund has held up well over this very short period year to date. Exposure towards technology and the new economy, and away from industrial cyclicals has helped.

In previous crises, great structural growth companies have often deepened their advantages within a downturn and accelerated out of it. Demand for online services has exploded as large parts of the world have gone into lockdown. The large online platforms are demonstrating their resilience and are increasingly viewed as vital utilities. A number of the companies in the portfolio have fared well, either because they directly contribute to immediate healthcare needs or research into a cure (such as Moderna and Amazon), or because they enable us to stay connected, entertained or continue to consume in a world in lockdown (for example Zoom Video Communications and Netflix).

In contrast, holdings such as Wayfair, the online home furnishings company and Stitch Fix, the online personal styling service, were hit hard during the selloff in March. The market assumed that any company exposed to discretionary consumer spending would be impacted by a dramatic reduction in demand and disruption of supply chains. However, in the short term, for Wayfair at least, social distancing restrictions may actually increase demand for purchasing furniture online and potentially change consumer behaviour in the long run.

Outlook

Now more than ever, we believe our calm and patient long-term approach is the best way to ensure the portfolio emerges from this crisis at least as robust as it entered it. We think that many of the companies in the portfolio have important roles to play during and after the pandemic, and it's well positioned for long-term growth

We encourage you to read our paper on how the pandemic may change things on our website when you get a chance.

We would like to thank investors for your continued support and we hope that you and your families remain healthy.

Annual Past Performance to 31 March Each Year (%)

	2016	2017	2018	2019	2020
Baillie Gifford American Fund	4.4	36.7	19.7	26.6	10.8
S & P 500 Index + 1.5%	6.6	36.2	3.0	19.6	0.5
S & P 500	5.1	34.7	1.6	17.9	-2.2
Investment Association North America Sector	-1.1	33.2	0.0	15.7	-4.0

Source: StatPro, FE. Sterling. Returns reflect the annual charges but exclude any initial charge paid.

The managers believe the S&P 500 Index + 1.5% is an appropriate benchmark given the investment policy of the funds and the approach taken by the manager when investing. In addition, the manager believes an appropriate performance comparison for this fund is the Investment Association North America Sector.

Past performance is not a guide to future results.

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The fund's exposure to a single market and currency may increase share price movements.

Share prices can be volatile due to movements in the prices of the underlying holdings and the basis on which the funds are priced.

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