MANAGER INSIGHTS – GLOBAL INCOME GROWTH TEAM

Investment manager Toby Ross gives an update on the portfolio positioning as we deal with the current global pandemic.

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

Toby Ross: Coronavirus has already had a tragic human cost and caused a lot of disruption to many peoples' lives.

It has also brought unprecedented uncertainty for companies, and so for income-seeking investors. Current expectations are that the dividends paid by UK companies will fall by more than half this year, with a 40-50 per cent drop also expected in Europe. That would be a bigger drop than was seen during the great Financial Crisis.

For many savers, this potential dramatic fall in income is another thing to worry about at an already worrying time.

An investment approach built for resilience

Our investment approach on the Global Income Growth team has always been focused on finding high quality, robust companies, that are capable of paying resilient dividends over time. We aim to own through-cycle winners, not companies that rely on a favourable economic backdrop in order to grow. That's why the biggest holdings in our portfolio are companies like Roche, Procter & Gamble, and Deutsche Boerse, not banks or oil companies.

Indeed, a key question we've asked ourselves when picking stocks for the portfolio over the past few years is 'How resilient might this dividend be in times of stress?' We asked that question when the sun was shining so that our investors could be reassured when things looked more difficult - as they do now. We won't have got all the answers right, but doing this work has helped us bias the portfolio strongly towards the more resilient names.

We have been massively helped in our stock-picking by having a global universe of 4,500 dividend paying stocks to choose from, from all around the world. That makes it much easier for us to avoid many of the more problematic areas than if we were restricted to, say, just the narrower UK market.

But it also gives us a big diversification benefit. Companies like Anta Sports, the Chinese sportswear business, are returning to work again, even while Europe remains in lock-down. So the investment

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approach – global, long-term, genuinely diversified equities, with a focus on resilient growth – that's really proving its worth at the moment.

Our outlook for 2020

Now, in this extreme environment we are expecting some companies, even strong ones, will reduce their dividends this year. And actually, in some cases we think that is absolutely the right decision for boards to take. So, despite our focus on resilience, we are expecting that the income from the portfolio will be somewhat lower in 2020 than in 2019 – though we expect the impact will be far lower than the 40-50 per cent drops for the UK or European markets.

What are we doing as managers?

What, then, are we doing as managers in this turbulent time? Well, our aim is always to be responsible stewards of our client's capital. So our first priority has been to get in touch with many of the management teams of the companies in which we invest, to offer them our support in a challenging 2020. We know that they are trying to do the right thing for their employees, for their customers, for their communities as well as for their shareholders, and we fully support them in this. And we've also been really glad to see holdings like Sonic Healthcare and Roche going to great lengths to try and help address the testing crisis that society is currently facing.

When it comes to making changes to the portfolio, we also think it's more important than ever that all our decisions are guided by what's best for the long-term income stream. That means we need to resist the urge to invest in apparently cheap, high-yielding stocks. The income may turn out to be illusory and the long-term prospects of those businesses often look pretty poor. So we aren't tempted by the oil majors, or retailers, or to go bargain-hunting in the banking sector.

Instead, we think we need to focus, at the individual company level, on where the biggest long-term income growth opportunities are. Who are the most adaptable management teams? Who's going to emerge from this period of disruption stronger?

Strengthening the portfolio's income for the long term

With that as our guide, we have started to make a couple of changes to the portfolio. We've added to some of our favourite names, at more attractive valuations. We've also taken the opportunity to take new holdings in a couple of businesses that we've admired for some time, where we think that the market is now unduly focused on the short-term outlook. The great American asset manager T Rowe Price would be one example or Hargreaves Lansdown, which is the leading UK savings platform.

And on the other side of the ledger, we've moved on from a couple of names where our conviction in the long-term case had been ebbing, and which we think won't emerge from this crisis stronger. For example, we have sold a small holding in Bankinter. We think Bankinter is one of the best banks in Spain, but we aren't sure that being the best player in a really tough industry is going to lead to strong growth over time.

That said, given our long-term time horizon, and the fact that the portfolio as a whole is, we think, well positioned, you shouldn't expect us to make major changes and we think turnover will remain low.

Time to invest for long-term income, not short-term yield

2020 will go down as a momentous year for dividend investors. But if there is a big lesson for income investors to take from this year, we think it's actually about the importance of focusing on long-term income from a global opportunity set. We think investors need to stop chasing high yields, and instead embrace a much richer, broader opportunity set than they have typically done in the past. We strongly believe that it's that focus on the long term that will help deliver not just a more resilient income stream today, but also real growth over time.

In doing all this, we count ourselves really lucky to work in a firm that values stability and helps us take a resolutely long-term approach. And also very fortunate in our clients, who share our time horizon.
So I'd like to end by thanking our clients for their support, and thanking you for your time. We hope you and all your families stay well.

Annual Past Performance to 31 March Each Year (%)

	2016	2017	2018	2019	2020
Baillie Gifford Global Income Growth Fund	3.9	28.5	2.5	9.7	-1.8
Baillie Gifford Responsible Global Equity Income Fund	-	-	-	-	0.0
FTSE All World	-0.5	33.1	2.9	10.7	-6.2
IA Global Equity Income	-1.8	25.4	-1.4	8.5	-9.8

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

The Responsible Global Equity Income Fund was launched on 6 December 2018. Performance is available from that date.

The managers believe the FTSE All World Index is an appropriate benchmark given the investment policy of the funds and the approach taken by the manager when investing.

Past performance is not a guide to future results.

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

The funds have exposure to foreign currencies and changes in the rates of exchange will cause the value of any investment, and income from it, to fall as well as rise and you may not get back the amount invested.

The funds invest in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.

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GIG/RGEI Fund Update 0420
Ref: IND WE 1622 46639