GLOBAL STEWARDSHIP PORTFOLIO UPDATE

Alasdair McHugh, product specialist, gives an update on the activity and positioning of the Global Stewardship portfolio, referring to three points – returns, resilience and responsibility.

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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.

Alasdair McHugh: Well hello everyone and thank you for joining me here in my living room for this portfolio update. I never thought I'd be filming one of these here but these are strange times indeed.

I appreciate that you all have plenty to worry about at the moment, so as a thank you for taking the time to join me I'll keep this update mercifully short.

What I'm going to do is I'm going cover three Rs: Returns, Resilience and Responsibility.

Returns

Now as you might expect, your portfolio value did fall during the first quarter as the economic implications of the pandemic shocked markets. However, your portfolio actually held up much better than the wider market and is already back in positive territory. It's up 8.6 per cent in sterling terms for the four months to the end of April and that's versus an index that's actually down 8.3 per cent.

So, what helped and what hurt relative returns? Let's start with the latter.

Companies with perceived economic exposure have been amongst the hardest hit. In your portfolio, that's meant loan comparison site LendingTree was the largest detractor, down nearly 40 per cent in the first quarter. That's largely because of exposure to the US housing market and to the US consumer.

We do know that it will be a bumpy ride with LendingTree but we remain happy holders and that's because developments have gone in line with our investment thesis. The company has made good progress, diversifying its business away from mortgages, which made up about 80 per cent of revenues back in 2014 when we first looked at it, but now only make up about 12 per cent.

As you know, we place great emphasis on ESG factors and sustainable growth businesses. This means your portfolio benefited from having no exposure to some of the hardest hit areas like oil and gas or airlines. But more excitingly, a number of holdings have actually thrived against this backdrop.

Electronic vehicle manufacturer Tesla was the standout amongst the positive contributors, with shares up 25 per cent in the quarter and almost doubling over 12 months.

2019 really was a stellar year for Tesla. It finished with record deliveries in the fourth quarter and, crucially, did so while turning a profit. The new Gigafactory in Shanghai commenced production just 10 months after ground was broken on its construction, and I think that’s just truly an amazing feat that shows the drive of that business.

As ever though, longer-term returns are of much more significance, so its pleasing to report good performance in both absolute returns and relative terms over longer periods. Indeed, recent events have actually improved longer-term relative returns which now sit well ahead of target.

Resilience

Onto my second R then, and that’s resilience. Resilience is something we’ve spent a lot of time thinking about lately, both in terms of your portfolio, and that of our own organisation.

On the latter point, I want to reassure you that Baillie Gifford is in a good place. Our experience in past crises, and also our partnership structure, meant that we had robust disaster recovery procedures in place and the move to ‘business as unusual’ was pretty seamless for us. Most of my colleagues are now working from home in a fairly normal pattern and indeed, our investors are getting even more time for investment research so I’m expecting a good strong flow of new ideas to result from this period.

With regards to the resilience of your portfolio, our task has been about ensuring the businesses therein are able to survive before they can resume their efforts to thrive.

In that regard, we have been going through your portfolio company-by-company to assess the balance sheet strength and cashflow position, as well as thinking about cultural resilience. Is the organisation flexible enough to adapt to a new normal, whatever that may turn out to be?

And you’ll be pleased to hear the vast majority of companies passed with flying colours. Your holdings are considerably less indebted than the average company and as such look better placed to weather the immediate storm. The best illustration of our confidence is the fact that we made no changes to your portfolio as a direct result of this analysis or of the pandemic’s emergence more broadly.

With reassurance the portfolio was in a good place we turned our attention to opportunities – good businesses that had been unfairly caught up in the market sell off. This led us to add to existing positions in three holdings – Nintendo, HDFC, the Indian insurer and Softbank – and also to initiate a position in Meituan Dianping, the Chinese takeaway service that pioneered contactless delivery.

Encouragingly, many of your holdings have been more than just resilient and are actually benefitting from the nudge towards online services such as ecommerce and media streaming that this lockdown has given us.

Zoom video communications is perhaps the best example of this. We took a holding for your portfolio in November. At that point the company had seen a daily maximum of 10 million users. Today it is serving more than 300 million people a day.

While not all of these new habits will stick, we certainly won’t be returning to the previous normal either. My own mother, for example, will continue to demand Zoom meetings with her 4-month-old grandson for the foreseeable future I think.

And really, amidst all of this turmoil, I just hope you are reassured that your portfolio is positioned to benefit from an acceleration in disruptive change that we really do think will result from this situation.

Responsibility
And then onto my third R which is responsibility and I just want to leave you on an upbeat note here. I'm very pleased to report that amongst all the negative and unnerving headlines, we have seen some positive and uplifting news stories from some of your largest holdings.

Amazon, for example, hired 175,000 additional staff in the US to keep up with demand. Many of those were furloughed from hospitality jobs.

Alibaba, Tencent, Tesla and Softbank, they've all pledged equipment ranging from ventilators to masks to testing kits to communities both in their own locale and also across the globe.

And perhaps most significantly, Illumina's gene sequencing machines are very much at the forefront of the scientific effort to find treatments and vaccines. The progress we've seen in that field is evidenced by the fact that it took just 6 days to sequence the viral genome, that compares to 6 months it took for SARS back in 2003 which is just an incredible comparison.

We have written to a number of these companies to reassure them that our position remains long term and we support them in the actions they need to take to support employees and to support society in the short term, regardless of any implications that might have on short-term profitability.

As you know, a core part of our philosophy is that responsible businesses will outperform in the long run, so it's great to see businesses acting to support communities in any way they can and, hopefully, helping us emerge from this health crisis faster than we might otherwise have done.

With that, I'll finish by wishing you and your families well. I very much hope that our next meeting is not here in my living room but in your offices and also hopefully preceded by a handshake. Stay safe everyone.

Annual Past Performance to 31 March Each Year (net %)

	2017	2018	2019	2020
Global Stewardship Composite	39.4	17.1	9.5	-0.2
MSCI AC World Index	33.0	2.9	11.1	-6.2

Source: Baillie Gifford & Co. Sterling.
Past performance is not a guide to future returns.

The strategy was launched on 7 December 2015. Past performance is available from this date.

Changes in the investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio.

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