
INTERNATIONAL GROWTH

Managers of the International Growth strategy Tom Coutts, Lawrence Burns, Brian Lum and Julia Angeles give an insight into their investment philosophy.

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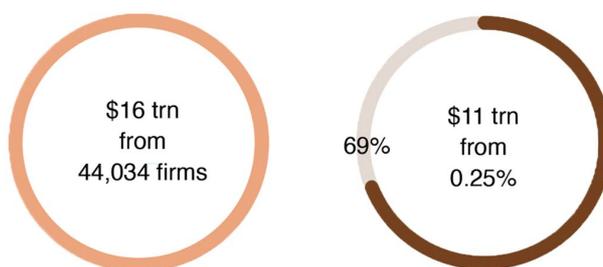
This film was produced and approved in July 2020 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

Thomas Coutts (TC): At Baillie Gifford, we've been investing in international equities for more than 100 years. Over that time, we've learnt some simple lessons that have helped shape the philosophy of our International Growth strategy.

That strategy is managed by a team of generalist investors, some of whom you'll meet in this short film. We conduct fundamental bottom-up research and we each bring a slightly different perspective to that task within our shared philosophy. The role of our team is to back individual conviction in order to harness those diverse perspectives to the benefit of our clients.

Lawrence Burns (LB): The truth is, most companies simply do not matter when it comes to investment returns. Instead, it is a small number of positive outliers that make investing in equities worthwhile. Truly exceptional growth companies that can return 5, 10 or even 15 times a client's initial investment.

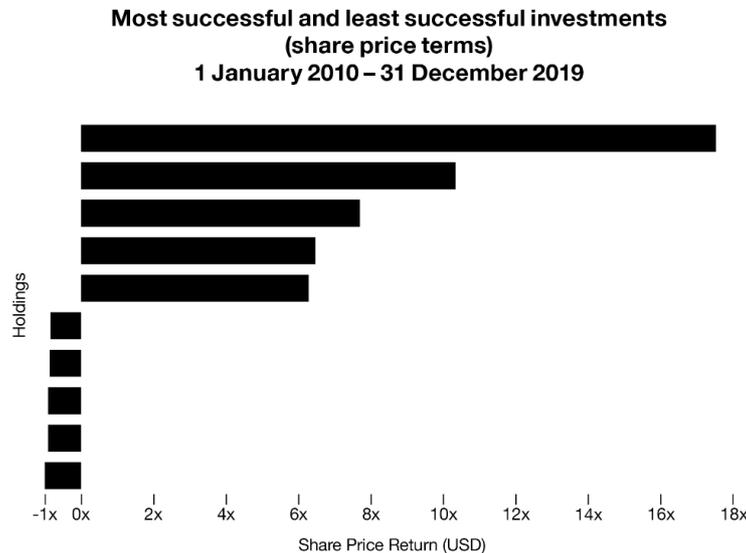
International Equity Market Wealth Creation 1990-2018



Source: Bessembinder, H., Cheng, TF., Choi G. and John Wei, K.C.
Do Global Stocks Outperform Treasury Bills? (July 2019).



Academic research shows that over the last 28 years, international equities created over 16 trillion dollars of net wealth. However, 69 per cent of that net wealth can be attributed to a mere 0.25 per cent of companies. That’s just 111 out of over 44,000. It’s identifying and owning these rare companies and understanding the long-term upside that truly matters.



Source: International Growth Composite.

If you look at the returns of our most successful investments and our least successful, the power of outliers is clear. Our most successful investment alone has more than made up for our five worst mistakes of the last decade. That is the power of investing in truly exceptional growth companies.

Brian Lum (BL): Timeframes matter. If you’re lucky enough to find a great growth company, you need to own it for as long as possible. We are trying to add value by running winners and compounding returns.

It is about patience. Our portfolio turnover is around 10 to 20 per cent per annum, which means that we typically hold shares for 5 to 10 years. And there are some stocks in the portfolio that we have owned for much longer than that.

We think it is important to invest with an ownership mentality. This means engaging actively with companies on matters such as strategy and governance. It also means focusing on sustainability so that the company’s long-term developments take into account the interests of all stakeholders and to society more broadly.

Julia Angeles (JA): If we want our companies to be ambitious and focus on long-term outcomes, we need to invest alongside business leaders with a similar mindset. In our experience, these qualities are more common in the companies that have a strategic backer. For example, a strategically backed company could be either founder-led or family-run. These companies are often more willing to make bold investment decisions and ignore short-term market pressures.

The International Growth portfolio is skewed towards companies which are either founder-led or family-run. And towards the companies that continue investing in future growth, through research, capital expenditures, and by strengthening their competitive position.



TC: Our competitive edge is routed in Baillie Gifford’s partnership structure. As a multigenerational private partnership, we take a long-term perspective when we think about our own firm, when we think about our clients, and when we select companies in which to invest on their behalf.

That long-term perspective allows us to think creatively and optimistically about what might go right for a company over the next 5 to 10 years rather than trying to second guess how the share price may react to the next set of quarterly results.

We’re a firm with over 100 years of investing history but when we invest, we look to the future, not the past. We aim to use our partnership structure and the best of that century-long history to keep getting better at the task of investing so that we can identify the exceptional growth companies of tomorrow and own them well on behalf of our clients.

Annual Discrete Performance to 30 June Each Year (%)

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|------|------|------|------|------|
| Baillie Gifford International Growth Composite | 30.8 | 24.2 | -3.3 | 30.5 | 44.1 |
| MSCI AC World ex US | 20.8 | 7.4 | 2.4 | -4.4 | 36.3 |

Annualised returns to 30 June 2021 (%)

| | 1 Year | 5 Years | 10 Years |
|--|--------|---------|----------|
| Baillie Gifford International Growth Composite | 44.1 | 24.2 | 12.6 |
| MSCI AC World ex US | 36.3 | 11.6 | 6.8 |

Source: Baillie Gifford & Co and relevant underlying index provider(s). USD.

Net of fees returns have been calculated by reducing the gross return by the highest annual management fee for the composite.

All investment strategies have the potential for profit and loss.

Past performance is not a guide to future returns.

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