MANAGED FUND – MANAGER INSIGHTS

Lucy Haddow, product specialist, gives an update on the Managed Fund and its position during these challenging times.

The value of an investment in the fund, and any income from it, can fall as well as rise and investors may not get back the amount invested.

This film 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.

Lucy Haddow: Hello and welcome to our Insight Video for the Baillie Gifford Managed Fund. First and foremost, we hope that you and your families are well, and that once more immediate concerns give way you find the following update helpful.

Our main message is that despite uncertainty as to how the pandemic proceeds from here, our 33-year investment approach remains unchanged.

What that means for you is that we are focussing on the resilience of the Fund’s holdings and considering those in which we can have greater confidence in the long-term opportunity set. Generally speaking, we believe that the portfolio is well-positioned for the long term.

As you will be aware, the past quarter has been characterised by headline grabbing moves across most asset classes. Equities have been extremely volatile and bond markets have not been immune either.

So, what has this meant for the Baillie Gifford Managed Fund?

The equity holdings which have seen the sharpest share price falls are typically those with exposure to discretionary consumer spend and the energy sector.

The former encompasses a diverse range of businesses from Mitchells & Butler, the UK restaurant, pub and bar chain to Ryanair, the low-cost airline and Wayfair, the online furniture retailer. As mentioned, we’re reviewing the resilience of these holdings to weather the current environment and overall, at this stage, remain cautiously optimistic about their long-term prospects.

Exposure to the energy sector is limited (it makes up just 1.3 per cent of the fund), but holdings such as Petrobras have been negatively impacted. Clearly there is a short-term demand slump for oil (in addition to a well-publicised stand-off between OPEC and Russia) and it’s hard to judge for how long this turbulence may persist. However, should today’s oil price endure, this may ultimately benefit Brazilian-listed Petrobras given its large and relatively low-cost reserves.

It is of course also worth noting that some businesses have held up better in this environment. Zoom, which, no doubt, many of you have become very familiar with in recent weeks and we’re actually using to record this insight video, is one such example.

According to some reports, the video conferencing app was downloaded over 2 million times on 23 March alone – that's up from just 56,000 downloads a day two months earlier.

How have companies held in the fund been adapting in this challenging time?

We place great emphasis on culture when investing in a business and the current backdrop very much sorts the average management teams from those which are exceptional.

To bring this to life with a few examples: Burberry, the luxury goods company, is repurposing its trench coat factory to produce non-surgical gowns and masks, while UK-based engineers Renishaw and Rolls Royce have responded to the call for more ventilators.

What about the fund's bond and cash holdings?

Despite volatility along the way, the fund's fixed income holdings delivered a positive absolute return over the quarter and that was helped by weakness in sterling. Overall, developed market government bond exposures were the main contributor to this outcome, although this was offset by exposures such as those to the 'oil currencies' of Norway and Russia.

It is also worth noting that an overweight position in cash has been helpful. On average, the fund held 11 per cent in cash over the quarter. The fixed income portion of the portfolio has a dual role. It's there to deliver return but also to provide balance relative to equities, and cash plays an important role in helping it fulfil the latter of those objectives.

So, how is the Managed Fund positioned from here?

The fund's current target asset allocation is 73 per cent equities, 17 per cent bonds and 10 per cent cash. For the most part, we are confident that equity holdings are well-capitalised and adaptable. That said, our priority is on reviewing individual companies to determine those that could be most at risk in the short term.

Recently, we sold the fund's holding in the cruise line operator Carnival. Typically, we would sit through uncertainty as eventually things will normalise, but given the capital-intensive nature of that business, its high levels of debt and concern about future demand, we felt it prudent to sell.

We are, of course, also looking at opportunities. The current environment could accelerate change in certain areas. As an example, it seems that the experiment of working from home could become regular practice. This draws attention to leading software companies such as the fund's holding in New Zealand-based Xero, amongst others.

There may also be great growth businesses which have unduly sold off. This was the case for the leading sports brand Adidas to which we have recently added.

Furthermore, we are also reviewing individual bond holdings as well as the broader positioning of this portion of the fund, so that's the split between government bonds and credit, to ensure that these exposures fulfil their dual role. One of the changes we have recently made is to add to credit exposures where we are seeing good opportunities.

Looking forward, clearly coronavirus presents an unprecedented challenge and we don't intend to begin a programme of short-term speculation as to how this evolves. Instead, we remain focused on our primary task: picking individual holdings with the resilience to weather the current environment and the durability to continue to deliver long-term growth for investors in the Baillie Gifford Managed Fund.

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

	2016	2017	2018	2019	2020
Baillie Gifford Managed Fund	0.5	22.0	6.3	8.4	0.2
IA Mixed Investment 40-85 per cent Shares	-3.4	17.7	1.4	4.5	-7.8

Source: StatPro. Managed Fund B Inc. Sterling. Net of Fees.
*IA Mixed Invested 40 per cent-85 per cent Shares Sector Median (Net)
The manager believes an appropriate comparison for this fund is the Investment Association Shares sector median given the investment policy of the fund and the approach taken by the manager when investing.

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The fund's share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the fund is priced.

Bonds issued by companies and governments may be adversely affected by changes in interest rates, expectations of inflation and a decline in the creditworthiness of the bond issuer. The issuers of bonds in which the fund invests, particularly in emerging markets, may not be able to pay the bond income as promised or could fail to repay the capital amount.

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