THE MONKS INVESTMENT TRUST PLC – MANAGER INSIGHTS

Jon Henry, product specialist, gives an update on The Monks Investment Trust PLC and how the portfolio is positioned in the current climate.

Investment markets can go down as well as up and market conditions can change rapidly. 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 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.

A Key Information Document for The Monks Investment Trust PLC is available by visiting www.bailliegifford.com.

Jon Henry: At Baillie Gifford we are watching unfolding events with Covid-19 closely and our thoughts are with those affected. Investors should be reassured that we continue to function successfully with all staff working from home, and the day-to-day management of The Monks Investment Trust remains unaffected.

Portfolio Update

Our initial focus has been to review the financial strength and resilience of the portfolio. We believe that in aggregate the portfolio is well positioned for what is likely to be a challenging demand environment for companies moving forward. There are three key points about Monks' current positioning.

The first is that the portfolio is modestly exposed to cyclical or economically sensitive companies. As managers we have been reducing this exposure in recent years. When the current Global Alpha team took over the trust in 2015, the portfolio had around 30 per cent invested in 'cyclical' growth companies. Today, that is significantly less at around 20 per cent. These moves have left us in good shape in light of recent market moves.

The second point is that the portfolio has low levels of indebtedness. Its aggregate debt to equity ratio is less than half the benchmark's, which reflects our preference for quality growth businesses. In reducing the portfolio's cyclical exposure, we have been allocating that capital towards what we classify as rapid growth companies. Many of these businesses are asset light, are in good financial shape (many have net cash balances on the balance sheets) and are supported by growing structural trends which we believe should persist, if not accelerate, in the current environment and I'll touch on that later.

And finally, the portfolio is minimally exposed to the energy sector. As one of the hardest-hit sectors, Monks has benefitted from having little exposure to oil and gas businesses. Today, the portfolio exposure here is less than 2 per cent.

However, investors should be reassured that we are not resting on our laurels. We have continued to work hard to identify those holdings in the portfolio that we believe could be hardest hit by the likely demand shock to come and are actively engaging with those businesses.

Overall, we have been encouraged by our further findings, but have acted quickly and decisively when required. For example, we've reduced some of our emerging market bank exposure, over which we had some concerns around growth prospects and asset quality in light of the pandemic. Reappraisal of the existing portfolio is an ongoing task, but we believe the picture is a reassuring one to date.

Thinking opportunistically

An important part of our role as managers is to continue to seek growth opportunities. Our first port of call has been to consider whether the response to Covid-19 is likely to accelerate the adoption of products and services which underpin the growth prospects of many holdings in the portfolio. Indeed, companies like Netflix (entertainment streaming), Microsoft (productivity applications or cloud services) and Spotify (music streaming) are all examples of companies which are held in the portfolio and are experiencing increased demand for their services. Therefore the question we're asking is: 'May this increased demand actually be structural rather than just temporary?' We remain open to the broadening growth opportunities for these companies.

Beyond the existing portfolio, our experience of navigating periods of extreme stock market volatility have taught us that these conditions can be happy hunting grounds for stock pickers. We have begun to consider where we see the greatest dislocations between share prices and fundamentals, and for example have been considering several enduring brands and franchises which we believe could be potentially unfairly discounted in share price terms. We believe now is the time to consider companies that we know well through our research but do not yet hold. This is likely to yield better results in the long term for shareholders than to frantically begin looking at and researching new ideas in light of share price falls.

Outlook

To summarise, the extreme market conditions that we've seen in recent weeks does not alter our fundamental approach. We continue to seek long-term growth opportunities. Monks' shareholders should be reassured that not only is the portfolio sensibly positioned with regards to debt and cash flow perspective (which is important in the near term), but that we believe the portfolio's growth prospects from here remain exciting in a long-term view. An economic crisis can often tilt the playing field in favour of innovation and the most adaptable companies, many of which we believe are held in the Monks portfolio.

Annual Past Performance to 31 March each year (%)

	2016	2017	2018	2019	2020
The Monks Investment Trust PLC	-3.2	53.9	20.3	10.0	-2.9
FTSE World	0.0	32.9	2.6	11.1	-6.0

Source: Morningstar. Share price, total return.
Past performance is not a guide to future returns.

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Gifford and its staff may have dealt in the investments concerned.

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