UK GROWTH FUND MANAGER UPDATE

Investment manager Iain McCombie gives an update on the positioning and activity of the Baillie Gifford UK Growth Fund portfolio.

Investment markets can go down as well as up and market conditions can change rapidly. The value of any investment can fall as well as rise and investors may not get back the amount invested.

This communication was produced in July 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 Baillie Gifford UK Growth Fund plc is available by visiting www.bailliegifford.com

Iain McCombie: Hello, I'm Iain McCombie, one of the two co-managers of the Baillie Gifford UK Growth investment trust. I do hope that you and those that are close to you are as well as can be in the current circumstances. In this webcast I will briefly recap what my co-manager, Milena Mileva, and I are trying to achieve and then discuss what we've done to test the resilience of the holdings in the portfolio and then talk about a couple of new holdings we've taken quite recently. Further information on the trust, such as a copy of the recent annual report, can be found on the website.

What are we trying to achieve?

What are we trying to achieve? Well Milena and I are trying to generate long-term capital growth from an actively managed concentrated portfolio of the best growth stocks we can identify in the UK.

Portfolio Holdings – Top Ten

Stock Name	Description	Portfolio Weight (%)	Index Weight (%)
Boohoo.com	General Retailers	4.4	0.0
Abcam	Pharmaceuticals & Biotechnology	4.0	0.0
Auto Trader	Media	4.0	0.2
Genus	Pharmaceuticals & Biotechnology	4.0	0.1
HomeServe	General Retailers	3.7	0.2
Renishaw	Electronic & Electrical Equipment	3.7	0.1
St. James's Place	Life Insurance	3.6	0.3
Hargreaves Lansdown	Financial Services	3.6	0.3
Prudential	Life Insurance	3.3	1.6
RELX	Media	3.1	1.8

Source: Baillie Gifford & Co and FTSE. As at 30 June 2020.

We are growth investors, which means we look for companies that typically exhibit superior growth characteristics led by capable management teams which, together, will result in superior returns to shareholders. Our long-term horizon results in very low portfolio turnover. For example, over the trust's last financial year, our portfolio turnover was only 5 per cent, and the portfolio is very different from the index with an active share of about 85 per cent, as structurally we believe the index to be composed of many unattractive companies and in order to outperform the index, you have to be different to it. That's why we hold niche financial names, such as AJ Bell or Hargreaves Lansdown, rather than traditional banks and we avoid sizeable index constituents from, for example, the oil and gas sector.

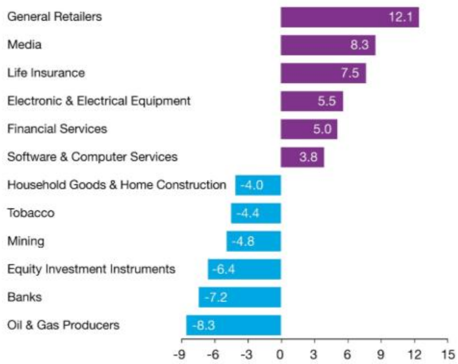
Industry and Sector Split

Industry Breakdown

Industry Split	Portfolio (%)	FTSE All-Share Index (%)
Financials	25.9	25.5
Consumer Services	25.1	11.7
Industrials	23.6	12.2
Healthcare	8.4	11.4
Consumer Goods	8.2	15.6
Technology	4.8	1.1
Basic Materials	4.1	8.4
Utilities	0.0	3.3
Telecommunications	0.0	2.4
Oil & Gas	0.0	8.4
Cash	-0.9	0.0
Total	100.0	100.0

Source: Baillie Gifford & Co and FTSE.
As at 30 June 2020.
Totals may not sum due to rounding.

Sectors – Top Six Overweight and Underweight Positions



Source: Baillie Gifford & Co and FTSE.
As at 30 June 2020. Weights relative to FTSE All-Share.

The backdrop

The backdrop for investing in UK equities is always uncertain, however the potential consequences of Covid-19, let alone a disorderly Brexit, add interesting dimensions. Recently, we re-examined the investment case for all of the 40 plus holdings in the portfolio, focusing particularly on their resilience in these unprecedented times. We decided to sell out of the cruise ship operator Carnival because of concerns about its balance sheet and the long-term damage to demand for cruising. More recently, we sold out of the pub and restaurant operator Mitchells & Butlers as we think the recovery in the demand for eating out will be protracted. Many of the other companies in the portfolio that we hold are going through tough times at present, but we are of the view that these companies will come through this crisis in good shape given their attractive market positions, strong management and decent financial positions and therefore retain the potential to generate superior returns to the market. So we remain happy with the shape of the portfolio. A crisis also creates opportunities and we took a holding in a specialist marketing business 4imprint after its shares were heavily hit, rather unfairly in our view.

Two new recent purchases

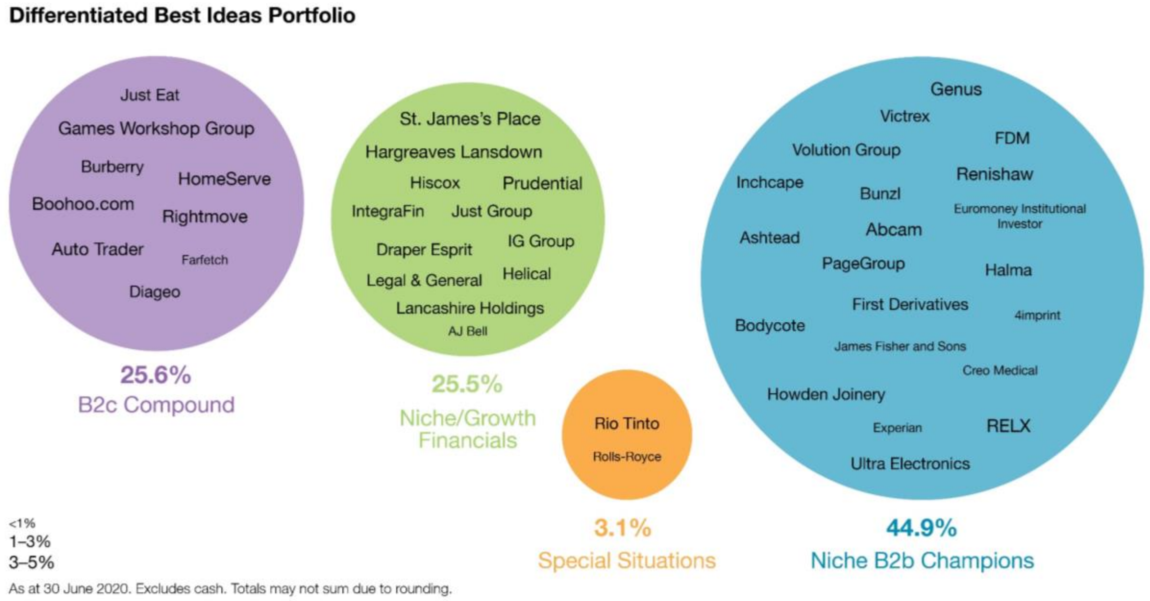
Recently we have made two further new purchases. The first is Lancashire Holdings, a specialist insurance company. This is a stock that Milena and I know well and have followed for some years. It writes commercial insurance risks and has an outstanding track record of profitable underwriting. This is in stark contrast to most of the industry. In recent years insurance pricing has been falling but Lancashire has been disciplined and until late last year was happy to shrink and wait until industry losses became unsustainable and insurance prices improved. That moment had arrived, even before Covid and the pandemic will likely accentuate the trend, so we decided to take a holding which we increased when Lancashire raised more equity capital to take advantage of the attractiveness of rising prices in their markets.

We also took a holding in Experian, the credit information provider. This has been a business we have long admired for its strong growth track record, attractive financial characteristics and sensible management. The recent Covid crisis has seen the business continue to perform resiliently and reinforced our view that the business has a very strong market position and has a multiyear growth opportunity in front of it.

Outlook

Up until now, the trust has been ungeared but these recent purchases have left us close to a zero cash position and it is likely that incremental investment opportunities will be funded through a modest amount of gearing.

We have no crystal ball, so we cannot predict how the current extraordinary situation will play out. What I will say though is that we will stick to our tried and tested process of being long-term growth investors and we won't be shifting our style, for example to focus on so-called value stocks. The other point I'll make is acknowledging that recent scandals elsewhere in our industry have tarnished the reputation of active fund management in the eyes of many UK investors. This is an issue for all of us in our industry to ponder deeply.



As actual investors, our response is to stand up for active management because we passionately believe that if one is willing to be long term and dare to be different from the market, then such an approach should be rewarding for shareholders.

Is the UK an attractive market to invest in? Our answer is yes. Sure, the UK has a number of very well-known businesses with challenged business models. We don't own them. Why? Because below that layer of future dinosaurs, there are plenty of exciting UK growth businesses to invest in. Both Milena and I as your trust's managers, and as fellow shareholders, we remain optimistic about the long-term growth potential for the portfolio.

Thank you for your time. If inclined, please do go to the website for more information on the trust.

Annual Past Performance to 30 June Each Year (%)

	2016	2017	2018	2019	2020
Bailie Gifford UK Growth Fund plc	-5.0	19.3	16.5	-0.2	-2.5
FTSE All Share Index	2.2	18.1	9.0	0.6	-13.0

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

Past performance is not a guide to future results.

The views expressed are those of the speakers and should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect personal opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

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The trust has exposure to a single market and this may increase risk. The aim of the trust is to achieve capital growth. You should not expect a significant, or steady, annual income.

The trust can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid to the trust, the value of the investments may not be enough to cover the borrowing and interest cost, and the trust will make a loss. If the trust's investments fall in value, any invested borrowings will increase the amount of this loss.

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