BAILLIE GIFFORD US GROWTH TRUST PLC – MANAGER UPDATE

Gary Robinson, co-manager of the Baillie Gifford US Growth Trust, explains why he thinks the major behavioural shifts we've seen in recent time are here to stay, and talks about which opportunities in particular he is most excited about.

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A Key Information Document for the Baillie Gifford US Growth Trust plc is available by visiting www.bailliegifford.com.

Alex Blake (AB): Hello. I'm Alex Blake and I'm joined today by Gary Robinson, co-manager of the Baillie Gifford US Growth Trust. Welcome Gary.

Gary Robinson (GR): Thank you Alex.

AB: The pandemic that has swept across the world has caused great suffering and loss. Restrictions have also been imposed by governments to slow the spread of the virus. What impact has this had on the US Growth Trust portfolio?

GR: So, we've seen big shifts in demand across a number of sectors of the economy. For example, in retail, consumers have been doing a lot more of their shopping online. In enterprise software, more people are working from home, which has led to a spike in demand for collaboration tools like Zoom's videoconferencing software, that we're using to record this today. And in the healthcare sector, patients have been turning to telemedicine services, like the ones offered by Teladoc, as a safer way to interact with doctors.

On the other hand, demand for real world services like travel has been impacted negatively. Overall our portfolio is geared into the digital economy, so it's been on the right side of these demand shifts.
But it's important to emphasise that while it's good to see so many of our holdings supporting the economy through these difficult times, the key question for us to consider as long-term investors is whether the current period will lead to any enduring changes.

And one of the things which is striking to me is how early we are in the digital transformation. The internet has been around for years and yet most of the world still happens offline. Take ecommerce as an example: in the US, only 16 per cent of retail sales were online prior to the pandemic and that's one of the most mature geographies in the world. Or take the medical sector – why is it that over 95 per cent of doctors' visits have historically been done in person when we have the technology to do them via telemedicine?

And I think the answer to these questions is simply that we do things this way because we've always done things this way. You know, our actions today are largely a function of habit and inertia. In my mind, online shopping is clearly superior to bricks and mortar retail. You get access to lower prices and better selection and it's often more convenient – and yet whilst ecommerce has been growing it's been a slow and steady grind higher, rather than a tipping point.

And that's why the current situation is interesting with regards to long-term change. Because suddenly, out of necessity, people are being forced to shift their habits and try the alternative approach. And this trial, I think, will result in some permanent changes because, when consumers do try the alternatives, I think it will become apparent to them that in many cases – not in every case but in many cases – that the new way of doing things is better than the old way.

And so, what we're arguably seeing right now is a pull-forward by several years rather than a one-off demand spike.

In ecommerce, Amazon hasn't been able to keep up with demand and has had to hire an additional 175,000 workers. Wayfair, the online furnishings retailer, has seen its revenue growth accelerate from 20 per cent at the beginning of the year to over 80 per cent in the second quarter. That's a lot of new people trying the new way.

Teladoc, the provider of Telemedicine services has seen its visits grow over 200 per cent in Q2. Most people in the US have had access to Telemedicine but only about 1 in 10 have used it historically. But these new consumers tried telemedicine for the first time, and we're seeing very very high levels of satisfaction and I think many of them will continue using this service post pandemic.

And then there's the home working situation and what many people have been doing for the last six months. Why is it that many of us go into an office from 9 to 5? Is it because it's the best way? I don't think so. I think it's because it's how we've always done it. The 9 to 5 was designed for the industrial revolution when people had to be together in the same place at the same time to make things. In the information economy, in a lot of cases, that's no longer necessary and so I think, you know, people will go back to offices to some extent but it won't be the same and there will be a completely different attitude to home working. And Zoom, the video conferencing company, and that we own in the portfolio, stands to benefit from this.

Now please don't take any of this as a prediction of what's going to happen next. It's going to be very hard for companies to sustain the growth rates that we've seen recently. But the current period has broken people's habit and it's shown many consumers the benefits the digital economy has to offer. And in terms of our companies, we've been very impressed by how they've managed to adapt and scale to meet these spikes in demand, which has given us greater conviction in their cultures and in their business models for the future.

AB: Thank you, and I'm sure we're all contributing to some of these behavioural shifts you've talked about. What changes have you made to the portfolio over the last year?

GR: So, we invest on a five to 10-year time horizon. Portfolio turnover remains very low and we haven't made any changes to the portfolio because of the pandemic. The top ten holdings at the end of the reporting period were almost identical to the top ten holdings a year ago.

But there have been some new buys and sales. In terms of public companies, we took new positions in videoconferencing company Zoom and telemedicine company Teladoc towards the end of last year but obviously, at that point in time, we had no idea that they'd be playing such an important role in supporting the economy in the pandemic. The source of enthusiasm for those companies was long-term structural opportunity in front of them.

We've also added some new names, some new public companies in the enterprise software space: so Workday the cloud HR and finance software company, Twilio the cloud communications provider, and web security company Cloudflare.

And we've continued to build our exposure to private companies. So we added eight new private companies in the period across a very broad range of business models and sectors. For example, Ginkgo Bioworks the synthetic biology company, Stripe the payments platform, Snowflake the cloud data analysis company, and Warby Parker the direct to consumer prescription glasses company.

So we're continuing to find lots of exciting opportunities, particularly in the private space.

AB: That's great. Can you give us an example of an area you're really excited about?

GR: So, one area that we're really excited about is what I would call cloud-based infrastructure platforms. I mentioned Stripe earlier. That's a great example of one of these. So Stripe's aim is to make sending and receiving money as easy as transferring information online. The financial system is really complex and it's very very hard to navigate. Stripe's platform interacts with this financial system on behalf of its customers and manages the complexity. All a company needs to do is plug in to Stripe with a few lines of code and then it can accept money in over 100 countries around the world.

We own other cloud infrastructure platforms in the portfolio which are performing a similar role but in different sectors. So Shopify is a platform that allows companies to easily access tools for ecommerce. Amazon's AWS is a platform for renting IT infrastructure on demand. And Twilio, which is another new purchase, allows companies to easily build communications functionality in to their applications.

And what all of these businesses have in common is that they sit above institutions or networks of hardware and manage the complexity of these networks on behalf of their customers. And one of the really important implications of the emergence of these platforms is that collectively, they're making it much much easier and much less expensive to start a company. Rather than building out expensive infrastructure ahead of demand, entrepreneurs can just hook in to these cloud infrastructure platforms and rent what they need when they need it. So, in essence what the likes of Stripe and Shopify are doing is making it much easier to start and scale a company, which is great news for the health of the economy.

And all four of the platforms that I mentioned have the potential to be very valuable in their own right. They operate in trillion-dollar industries, their business models generate flywheel effects causing them to get stronger as they grow. They have interesting cultures, they're founder-run, mission-driven, innovative, and run for the long term. And in lowering barriers to entrepreneurship, they are performing a really critical role for society and improving the vitality of the global economy. And they're becoming even more important in recent times, as the world has started to shift online even faster than ever.

AB: They sound like some really exciting companies. What's your long-term outlook?

GR: Since we launched the trust, we've been saying consistently that we think technology will become ubiquitous over the course of the next decade and extend into all parts of society. And we acknowledge the challenges of looking forward right now, and indeed at any time, but our confidence in this assertion is as high as ever. Innovation is continuing at a rapid pace which bodes really well for the long term. It was really fantastic to see SpaceX sending astronauts to the International Space Station recently. This was something that only countries used to be able to do and now we have private country doing it. Innovation is really spreading out and starting to impact lots more sectors of the economy which is creating a really rich pipeline of ideas across a broad range of business models and broad range of industries. And we think the US Growth Trust is really well placed to capitalise on this, given its long-term approach and the flexibility that it has to invest across both the public and the private opportunity set.

AB: Gary, thank you very much for joining us.

GR: Thanks very much Alex.

AB: For more information, please visit BaillieGifford.com

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