LONG TERM GLOBAL GROWTH: HOW WE KEEP ON TRACK

This short film highlights how the team think about risk and their approach to volatility. Great growth companies don't go up in a straight line. Here's why clients shouldn't worry.

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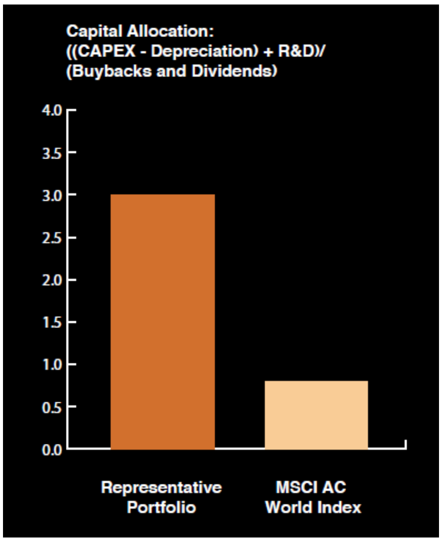
This film was produced and approved in September 2020 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

Tom Slater: How do we think about risk? Well, there are three key components. The first is diversification. The second is robustness. And the third is liquidity. On diversification, we think about prudent man rules, minimum number of countries, sectors and maximum holding size.

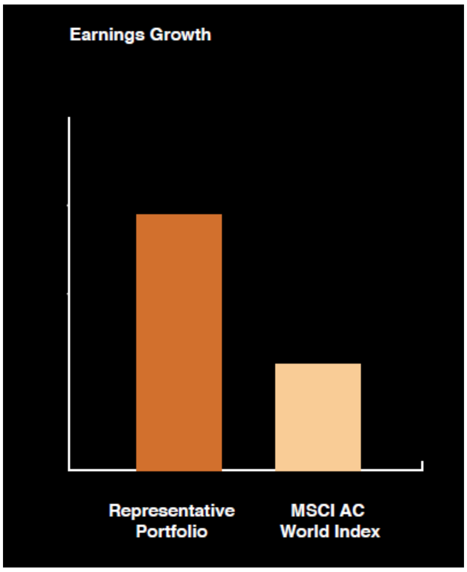
Tim Garratt: We spend a lot of time monitoring the robustness of the portfolio. Having chosen this great collection of companies, are they behaving and performing operationally as we would expect?



Source: Baillie Gifford & Co, UBS, Factset, Worldscope and MSCI. As of June 30, 2020. US dollars.
Based on a representative portfolio.

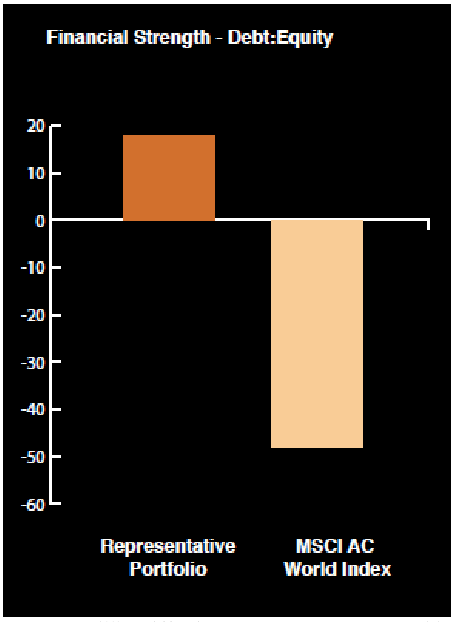
One of the metrics we look at is the approach to capital allocation. Having chosen to back these long-term innovative management teams, are they investing capital in research and development? You can see what a contrast on those metrics our portfolio strikes, relative to the index.

The other thing we look at is the earnings growth in the portfolio. We can see that it's growing more quickly than the index; exactly what we should expect in an area we keep a close eye on.



Source: Baillie Gifford & Co, UBS, Factset, Worldscope and MSCI. As of June 30, 2020. US dollars.
*5-year trailing
Based on a representative portfolio.

We derive a lot of reassurance from the fact that many companies in the portfolio are so well capitalised, sitting on net cash, and that contrasts greatly with an ever more indebted index.



Source: Baillie Gifford & Co, UBS, Factset, Worldscope and MSCI. As of June 30, 2020. US dollars.
** (Debt/Equity) x (-1) Ratio.
Based on a representative portfolio.

Scott Nisbet: A strategy like Long Term Global Growth sounds quite simple – you buy great growth companies and then you hold them for many years. But there's something that makes it quite a lot more difficult, and that is volatility. Even great growth companies, perhaps particularly great growth companies, simply don't go up in a straight line.

Tatjana Evans-Macleod: For example, there are a number of holdings in the portfolio who have produced multiple times, five, ten, 20 times returns for our clients but there have been periods where those stocks have halved. Amazon, for example, with the introduction of Amazon Prime. The markets concern was the next quarter or two quarters' lack of profitability. We were thinking beyond that, what this meant for the business in five, ten years, going forward.

Scott Nisbet: There's another angle for managing volatility and that's for clients. For the last 15 years in Long Term Global Growth, on four occasions, Long Term Global Growth has been more than 10 per cent behind the global equities index over a number of months or a year. And the worst thing a client could do at that point is fire us. So even for clients, there's an aspect to accepting volatility because that will come with the territory with long-term global growth.

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