KEYSTONE POSITIVE CHANGE INVESTMENT TRUST - INTRODUCTION

The aim of the Keystone Positive Change Investment Trust is to deliver attractive investment returns on behalf of shareholders over the long term, and to help shareholders contribute towards a more sustainable world. Investment managers Kate and Lee explain how they hope to do this.

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

Past performance is not a guide to future returns.

This film was produced and approved in February 2021 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

Rosie Rankin (RR): Hello, and welcome. My name is Rosie Rankin and I'm a director in the Clients Department. In February 2021, Baillie Gifford was delighted to be appointed as manager of the Keystone Positive Change Investment Trust. I am pleased to be joined today by the managers, Kate Fox and Lee Qian. We're going to explore what Positive Change means and the opportunities afforded by the Investment Trust. So firstly, Lee, could I turn to you to tell us a bit more about Positive Change?

Lee Qian (LQ): Thank you, Rosie. So, at Positive Change, we are firm believers that businesses and the investment community can be a force for good in society. I grew up in China in the 1990s and witnessed how a flourishing business and private sector were able to contribute towards the society by creating jobs, lifting people out of poverty, improving living standards, and widening access to goods and services. Fast forward to today, our society is at a crossroad where we face a range of challenges, from climate change to growing inequality to healthcare challenges. And once again, we believe that businesses have a role to play. By fostering innovation and entrepreneurship, we believe that businesses can come up with creative solutions towards those challenges. And as long-term patient investors, we want to support this process by investing in those companies.

RR: Lee, that sounds really compelling. Kate, could I perhaps turn to you to explore how Keystone Positive Change Investment Trust differs from the other global equity trusts that Baillie Gifford manages?

Kate Fox (KF): Of course, Rosie. Well, in some ways, this trust is a natural extension of what we've done for decades at Baillie Gifford in that we're adopting the same investment philosophy as our other global investment trusts. That is one of being active, long-term and growth investors. Where we differ is that we have two objectives of equal importance.

So, we are looking to deliver attractive investment returns on behalf of shareholders over meaningful periods of time, and to help our shareholders contribute towards a more sustainable world for current and future generations through investing in companies whose products and services are addressing global challenges. We've got four impact themes that we look to address through the portfolio which are social inclusion and education, environment and resource needs, healthcare and quality of life, and the base of the pyramid.

RR: Thank you, Kate. Now, Positive Change has been around since early 2017 when we launched the Positive Change open-ended fund. Lee, could I ask you to explain how the investment trust differs from the open-ended fund?

LQ: Yes. So, we are excited by the prospect of leveraging on the benefits of the closed-ended structure of the investment trust. That should allow us to do a number of things that we couldn't with our open-ended fund. In particular, it will widen our investible universe by including smaller cap companies and private companies.

And for private companies, we look forward to investing in businesses and provide direct primary capital towards companies, helping them to grow, invest in innovation and hire more people. In addition, with the investment trust, we are able to deploy gearing, that is, to borrow a small amount of money and use it to invest in companies. And as long as the long-term investment return is higher than the cost of borrowing, this should help to enhance the investment return for the shareholders in the trust.

RR: Lee, I'd like to go back to something you mentioned there about the larger investment universe. Now, you're looking for companies who can meet both of our objectives. How do you go about finding those companies?

LQ: Yes. So, our idea generation tends to be organic and we encourage our investors and our impact analysts to look for areas that really excite them and they are passionate about. And ideas can come from reading books, meeting companies, and speaking to experts. Often, we find ideas can snowball from existing holdings as we do follow-up research on a particular area.

A good example would be the food and agriculture sector. Since the inception of the fund, we have been investing in Novozymes and Christian Hansen, two Danish businesses with exposure to the agriculture sector. And that prompted us thinking more about sustainability in the context of food and agriculture. This had led to research, including an independent researcher looking at malnutrition, and us meeting a range of companies from vertical farming businesses to companies involved in alternative protein. And this research has led to two ideas that have made their way through into the portfolio, John Deere and Beyond Meat.

John Deere is a global leader in precision agriculture, and we were very impressed by their effort there after meeting the company. And with Beyond Meat, that idea came from our ongoing research looking at the alternative protein sector. So, I hope that provides a good example of idea generation at Positive Change.

RR: I think that provides a great example. Thank you, Lee. Turning now to how we think about measurement and reporting, Kate, reporting on one of our objectives, financial performance, is clearly quite straightforward. But how will shareholders know that companies in the portfolio are meeting our second objective of contributing towards a more sustainable world?

KF: Of course, Rosie, this is a really important point. So, following in-depth analysis and research around the investment potential and the impact potential for a business, if it makes it into the portfolio, it's important that we monitor and measure the contribution a company is making towards delivering positive change. It's important because our shareholders will want to know what impact their capital is having, and it's important because it holds us accountable to that objective.

But it's difficult. It's difficult because we're investing in a range of companies that are delivering impact in different ways, from companies that are improving patient lives to companies that are reducing carbon emissions. So, there's no single metric that we can use. It's challenging because there's no easy way to always measure impact, and it's challenging because even when it is measured and disclosed, it's not always disclosed in a consistent fashion.

Despite these challenges, we are committed to doing this and committed to doing it well. So, every year, we will publish an Annual Impact Report where we will illustrate the individual contribution companies are making towards delivering positive change, and the portfolio at an aggregate level. We'll also illustrate the contribution companies are making through their products and services towards the United Nations' 17 Sustainable Development Goals.

So, as an example, we invest in DexCom, which is a continuous glucose monitoring device business. These devices are helping diabetic patients better manage their condition. In 2019, its devices were used by 650,000 patients. Now, DexCom is one of a few companies held in the portfolio which is contributing towards the treatment and disease management on behalf of patients. So, in aggregate, the portfolio helped 1.4 million patients in 2019. For those who would like a sneak preview of what a report for the trust might look like, we've published our third Annual Impact Report for the open-ended vehicle, which is available on our website.

RR: Thank you, Kate. Now, it sounds like a huge amount of hard work goes into managing Positive Change. Yourself and Lee are the named managers of Keystone Positive Change Investment Trust, but tell us a bit more about the rest of the team who support you.

KF: I'd be delighted to do that, Rosie. So, Lee and I are the investment managers in the portfolio decision-making group of four. We are joined by two senior impact analysts, Edward Whitten and Michelle O'Keefe. We think this combination of experience is really important in making sure that both of our objectives are given equal consideration. The decision-making group of four is supported by three additional analysts who are dedicated to the Positive Change team. We're also supported by four portfolio advisors, who bring experience and perspective from other teams at Baillie Gifford.

And we're fortunate that we can leverage the broader investment experience at Baillie Gifford because we share one of our objectives with our colleagues, that ambition to identify high-quality growth businesses and to own them for the long term on behalf of our shareholders. I think we're really fortunate, with Positive Change, to have this scale of resource which really brings that breadth of perspective which is really important in this pursuit of these two objectives that we've got.

RR: So, in conclusion, Keystone Positive Change Investment Trust is a global equity trust with two equally important objectives, to generate attractive investment returns and to contribute towards a more sustainable and inclusive world. I'd like to thank Kate and Lee for their time today, and if you would like to find out more about the trust, please speak to your usual Baillie Gifford contact or visit the investment trust at bailliegifford.com.

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The trust invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.

The trust can borrow money to make further investments (sometimes known as 'gearing' or 'leverage'). The risk is that when this money is repaid by the trust, the value of the investments may not be enough to cover the borrowing and interest costs, 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.

Investment in smaller companies is generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller companies may do less well in periods of unfavourable economic conditions.

The trust's risk could be increased by its investment in private companies. These assets may be more difficult to sell, so changes in their prices may be greater.

All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

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