
LONG TERM GLOBAL GROWTH WEBINAR

Client Director Tatjana Evans-MacLeod highlights the most notable discussion points from the recent LTGG webinar, in which investment managers Mark Urquhart, Gemma Barkhuizen and Linda Lin discussed turnover, valuation, China, ESG, and capacity.

This recording is intended solely for the use of professional investors and should not be relied upon by any other person. It is not intended for use by retail clients.

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk.

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.

Tatjana Evans-MacLeod (TEM): We recorded an LTGG webinar at the start of February to give you a chance to hear from your investment team members, Mark Urquhart, Gemma Barkhuizen, and Linda Lin. They reflected on the extraordinary year we've just had and shared some thoughts about the future.

Fittingly, the name of the webinar was 'Reflecting on an Extraordinary Year'. And the topics we covered were turnover, valuation, China, ESG, and capacity. The webinar starts with Mark giving reflections on the past year and sharing some of our thinking going forward.

Mark Urquhart (MU): Real growth, real secular growth, is incredibly valuable. There's so much uncertainty in all asset prices at the moment. Governments have issued unparalleled amounts of debt. Interest rates almost everywhere in the world, you earn very, very little on cash. So the ability of equities, and especially growth equities, to provide that real growth, is incredibly valuable.

And as we looked at the portfolio at the tail end of last year, our five-year historic earning growth was about 30 per cent. Revenue growth even higher, above 40 per cent, which are the highest figures that I've seen in my time in LTGG. And I think the interesting thing is, for many companies, those are accelerating.

So the upside from here has been the central debate, really, for the team over the last 12 months. We spent a lot of time going through existing holdings and examining new holdings. The key question for us is, what does the world look like in 2025 and 2030? I can't remember a time in my career when more industries and more sectors are ripe for disruption.

Wherever one looks in the global economy, wherever you go, whether it's media and cinema, with Netflix and Disney Plus, the very idea of going to a cinema, and being constrained to attend movies at certain times, and sitting next to noisy people throwing popcorn at each other probably sounds like anathema to a lot of us. And it feels like the Rubicon's been crossed.

And I think that's the same when one looks at the food market, when one looks at health, and vaccines unlocking. We'll go through a lot of these examples. Very unlikely that we'll see a reversion to the mean, because the difference with previous crises was, we really just had to be patient, hold on to our growth stocks, and be confident that the growth would come back.



Lots of people are asking, well, will that happen in terms of some of the value stocks, in terms of some of the more old economy-type companies? Well, we don't think so, because, firstly, a lot of them have been absolutely annihilated. But, more importantly, the accelerant to change for their competitors, and new ways of doing things, has been a long-term consequence of the corona crisis.

TEM: I asked Mark about the uptake and turnover in the portfolio in the past year.

MU: This is a different crisis to before. So actually, if you went back to some of previous crises, our turnover was very low, because we felt the brief decision was to hold on to the companies that we had and identified. This time it feels, to me, certainly, and to the team we're building, to do our job properly we have to recognise some of the large changes.

There are companies where it does feel as if the market has come more around to our way of thinking. And so that's where some of that recycling of capital has come. But the flipside of that is, and I hope you've sensed today, in the audience, the excitement we have about these new companies and their ability to change the world in the same way that some of the existing holdings have in the last decade and a half.

TEM: Here, Gemma reflects on the team's thoughts about valuation.

Gemma Barkhuizen (GB): You know, the way that we think about valuation on long-term global growth is, we think about the long-term earnings potential of the company. We don't think about this year's earnings or next year's earnings, because, ultimately, those contribute a very, very insignificant proportion of company value.

And so, in that context when we're thinking about a multiple on this year or next year's cash, or earnings, or sales, our question is, really, just, has that multiple reached such a level that upside from here becomes more challenging? In that it requires us to make overly stretching assumptions about their future earnings power.

And when that is the case, then we do make reductions. As we've mentioned, we have done that with Amazon. We have done that with Tesla. But when that isn't the case then we think it doesn't make sense to just fetishize the optically high multiple in itself. And we think that this is the right approach in the context of the structure of equity returns, where it's really a very small handful of companies that account disproportionately for stock market outperformance.

It's a much, much worse mistake to not buy a company that ends up going up tenfold because the multiples seemed high at the beginning than it is to own a company with an optically high multiple that then ends up disappointing in terms of growth later on.

TEM: In this segment, Linda shares her thoughts about regulation in China, and, in particular, Alibaba.

Linda Lin (LL): We keep talking to different regulators about, how do they think about China? So, from Alibaba's case, let's see some numbers. So, this is the company providing jobs, indirectly, directly, to more than 100 million people in China. And this is a company that facilitates 1 trillion GME transaction value for the consumption upgrade.

I'm sure there will be some ups and downs about the regulation. But this is a company spending around 20 years talking with the Chinese government. I know there's antitrust, there's an issue. But I think that the trust in the management team gives us a confidence that this is a company that can get through this noise from the market. And the opportunity for Alibaba remains so exciting.

This is not only an ecommerce company. This is a company building the digital economy for China from the cloud to the payment system, from the sales care to the consumption. And also, we had a call with the CEO of Alibaba, and CFO, last week. And I think we were a few investors that had the opportunity to communicate with them the process that they are talking with the regulator.

So the conclusion that we have now is, they have good feedback from the regulator about anti-trust. That's not something targeted to Alibaba. That actually is helping the industry to grow healthier.



TEM: I asked Mark and Gemma to share their thoughts on ESG.

MU: As a general point I would say it’s one of the biggest changes, in the 15 or so years I’ve been working at LTGG, is the importance that we and our clients place on these factors. And I think it’s important for two reasons. The first is, there’s a much greater acknowledgement, probably since the financial crisis, of the role that the providers of capital have in the businesses they fund.

And so us, as middlemen between our clients and the companies, I think we do have responsibilities there. And those are the ones that we’ve reflected in the change to the 10Q a few years ago now, of inserting the question on, how do you contribute to society? So it’s not enough for us just to find companies that are extremely profitable. We think they also have to be sustainable and responsible.

But I think the second, and probably the more interesting change, is that I think customers demand that. I think there is a generational shift that there is such visibility on the actions of companies. And that’s been seen, exacerbated, and writ large in the last year, during pandemic behaviour.

The companies have been called out, quite rightly, where they have tried to price gouge, or they haven’t acted responsibly. I think customers will vote with their pounds, and their dollars, and their yen, and their renminbi, in following those companies.

GB: So the way that we think about this, like Mark mentioned earlier, is with this question that we have built into our research framework, do you contribute to society?

And we appreciate that’s a very qualitative approach that we’re taking there, rather than a checklist that we’re filling in. But we think that that’s important because the nuance is really helpful in this area. Because I think if we were operating just off the back of a box-ticking approach, that could mean that we miss out on some opportunities, just because they don’t fit into that neat checklist.

In a world where, so often, now, more and more strategies are approaching ESG as an area of importance, but they are outsourcing their thinking about ESG, we think actually having human judgement involved in that can be helpful.

TEM: In this final segment, Gemma talks about the size of the strategy, and its capacity.

GB: The capacity question, the size of the strategy, a couple of things to highlight is just the AUM figures mask a pattern in LTTG of considerable net outflows over the past few years. Since we’ve reopened in 2014 it’s been £18 billion of outflows. So the growth in the AUM, crucially, has been down to performance.

And then secondly, that size of the strategy hasn’t been an impediment to us in finding new ideas. With all of the new buys that we invested in over the past couple of years, the average market cap has been well over \$20 billion. The smallest I think was the Peloton IPO, which was \$8 billion. And that’s a product of companies staying private for longer and listing at much higher valuations in the end.

TEM: Thanks for watching. Really hope to see you in person soon. And as a reminder, you can see this webinar and other content on the LTGG micro-site, which is located at LTGG.baillieghifford.com. Thank you very much.

Annual Past Performance to 31 December Each Year (net %)

	2016	2017	2018	2019	2020
Long Term Global Growth Composite	14.5	40.7	4.5	29.0	95.8

Source: Baillie Gifford & Co. GBP.

Past performance is not a guide to future results. Changes in the investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio.



Important Information and Risk Factors

This recording contains information on investments which does not constitute independent investment research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA).

The views expressed are those of the speaker 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.

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Persons resident or domiciled outside the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018 and is authorised by the Central Bank of Ireland. Through its MiFID passport, it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions ("FinIA"). It does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. It is the intention to ask for the authorisation by the Swiss Financial Market Supervisory Authority (FINMA) to maintain this representative office of a foreign asset manager of collective assets in Switzerland pursuant to the applicable transitional provisions of FinIA. Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co.

Hong Kong

Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 and a Type 2 licence from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Room 3009-3010, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong. Telephone +852 3756 5700.

South Korea

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

Japan

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

Australia



This material is provided on the basis that you are a wholesale client as defined within s761G of the Corporations Act 2001 (Cth). Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth). It is exempt from the requirement to hold an Australian Financial Services License under the Corporations Act 2001 (Cth) in respect of these financial services provided to Australian wholesale clients. Baillie Gifford Overseas Limited is authorised and regulated by the Financial Conduct Authority under UK laws which differ from those applicable in Australia.

South Africa

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

North America

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

Oman

Baillie Gifford Overseas Limited ("BGO") neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently, BGO is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. No authorization, licence or approval has been received from the Capital Market Authority of Oman or any other regulatory authority in Oman, to provide such advice or service within Oman. BGO does not solicit business in Oman and does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. The recipient of this document represents that it is a financial institution or a sophisticated investor (as described in Article 139 of the Executive Regulations of the Capital Market Law) and that its officers/employees have such experience in business and financial matters that they are capable of evaluating the merits and risks of investments.

Qatar

This strategy is only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved. This does not constitute an offer to the public and is for the use only of the named addressee and should not be given or shown to any other person (other than employees, agents, or consultants in connection with the addressee's consideration thereof). Baillie Gifford Overseas Limited has not been and will not be registered with Qatar Central Bank or under any laws of the State of Qatar. No transactions will be concluded in your jurisdiction and any inquiries regarding the strategy should be made to Baillie Gifford.

Israel

Baillie Gifford Overseas is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This document is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

