
SCOTTISH MORTGAGE AGM – MANAGER INSIGHTS

LAWRENCE BURNS

In this AGM film, Lawrence Burns, deputy manager of the Scottish Mortgage Investment Trust, explains that success will be determined by the deep underlying structural changes going on in our world, the brilliance of business models, and the vision of their founders, rather than economic cycles, sector rotations and interest rates. He then goes on to discuss the areas where he believes this success could occur.

All investment strategies have the potential for profit and loss. Past performance is not a guide to future returns.

A Key Information Document for the Scottish Mortgage Investment Trust PLC is available by contacting us.

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

Lawrence Burns: Hello, and thank you for watching this year's Scottish Mortgage AGM. My name is Lawrence Burns. I'm a partner at Baillie Gifford. And earlier this year was appointed as Deputy Manager for Scottish Mortgage. Over the last decade my focus, some might say obsession, has been pursuing transformational growth companies.

It's a form of investing that really attempts to make the most out of the extreme asymmetric potential that exists within equity investing. By focusing on companies that have the potential to benefit from, and drive structural change, thereby offering the potential of extreme and transformative returns.

So, these companies' long-term success is not determined by the factors that so often dominate the financial headlines, and the financial narrative. The next Amazon, the next Tesla, is not going to be determined by economic cycles, by sector rotations, by interest rates, by GDP, or by inflation. Instead success will be determined by the deep underlying structural changes going on in our world, the brilliance of business models, and the vision of their founders.

It's the ability to focus on these things, to be patient during the inevitable bumps along these roads, and shut out the noise that really matters. And to me a key attraction of Scottish Mortgage, that I'm truly grateful for, is we have the ability to go and invest wherever that great change may be. We're not restricted by geography but truly global. So, whether the change of tomorrow is coming from companies emerging in Europe, China, America, or Latin American, we can invest.

And of course what really matters is that within those markets, we can be truly agnostic between whether or not that growth is coming from a public, or a private company. Put together, this gives



us the broadest possible canvass in which to identify, find, and learn, and ultimately invest and change. The main feature of the conversations between the three of us this year has not been the challenge of trying to find transformational growth opportunities. It's more been the challenge of choosing between which opportunities to prioritise within the portfolio.

The competition for capital is as intense as it has ever been, and would really point to three broad areas of transformative change in the coming years. The first is that continuing digital transformation of our world. This is driven by the progress of Moore's Law, that doubling of computing power every 18 to 24 months, for the same price is very well known. But I think what's often not grasped is what that exponential growth means, given sufficient time. It means that in not much over a decade that we will have a 60-fold increase in computing power.

A key question we should all therefore be grappling with is what will become possible with that power? Just imagine what you might be able to do with a Smartphone that's 60 times more powerful. Yet, perhaps what is both more important and harder to predict than that, is what objects we start being able to affordably embed computing power and intelligence in, for the very first time. That's not just about the car, which is increasingly becoming a computer on wheels. But it's about the very buildings, the roads, the infrastructure of our civilisation itself, becoming increasingly able to embed intelligence within.

The Dutch company ASML is at the heart of continuing Moore's Law, and thus empowering the continued progress of human innovation. Whether it is in Alibaba's ambition, to help digitise the entire Chinese economy, or from agriculture to manufacturing, or Ocado's ambition to shift the world's biggest retail category, groceries, online, using robotic picking and automation, and even eventually, vertical farming, to get fresher produce. The opportunities here remain immense.

Alternatively, consider Latin America, and Mercado Libre, where they face not just an opportunity in ecommerce, where penetration remains a small fraction of UK levels, and is itself a moving target. But also the opportunity to create a new digital financial infrastructure for the entire continent, broadening financial access beyond the wealthy, and disrupting the exorbitant fees, and rates, that for so long the traditional banking industry has imposed without challenge.

The second area is really about what is happening in biology, due to the application of data and computing power. This is an area far more important than those that have already been transformed and then digitised, such as advertising and retail. The potential implications are therefore profound, not just for economic returns, but for humanity and human health. It was, after all, Steve Jobs' prediction, one of his final, that the intersection of biology and technology will provide the biggest innovations of the 21st century. And we're starting to see strong signs that that will indeed be the case.

The third area of transformative growth and change then is that of the energy transition, away from fuels to renewable energy. This creates huge opportunity supporting that transition, whether in the production of electric vehicles with Tesla and NIO, of battery manufacturing with Northvolt, or the required charging infrastructure with ChargePoint. Yet even beyond this, the continued falls in the costs of solar and wind technology, point towards a future where energy costs actually dramatically decline. And this gives us another key question to grapple with.



What does the world look like when the cost of energy becomes considerably cheaper? How does that change the economics of business models? How does that change the entire economic paradigm? How does it change our progress as a species, when energy supply, and price, have so long been a constraint on our progress and is gradually lifted? These are the things that really matter I think for the portfolio, in the long-term, to be able to deliver serious growth in the decades ahead. Not whether or not inflation picks up a bit in the next few years.

But there's a huge responsibility here as well. Because I think Scottish Mortgage's role is not just about being passive observers to these great changes. But instead we have a role, and opportunity, to play where we are active supporters of progress. Through genuine engagement with management, we can encourage long-term behaviour. And we can encourage greater ambition through calculated risk taking.

In doing so, we are acting to counter the short-term pressures of financial markets. The prioritised quarterly earnings, and deal out punishments should those earnings ever actually be reinvested in the business for the future growth, or indeed within the real economy. We must also back up this support through the provision of primary capital, particularly at junctures where it may not otherwise be readily available to some progress.

So, as fund managers, I do think we have the ability to be either very harmful, or actually quite helpful to the progress of companies. Indeed, it surprises me that in the rush to embrace ESG, there's been no real introspection as to what the behaviours of fund managers, and their intermediaries, are doing to the world. The impact of fund managers, not just the impact of the companies they choose to invest in, matters.

And I'm not sure as an industry that we can or should be particularly proud of the impact we are having on the world. We have therefore an opportunity, given the scale of Scottish Mortgage, to really help companies, to help drive progress, and in doing so tilt the odds and magnitude of success in our shareholders favour. And that I think is a truly immense opportunity for shareholders over the next decade.

Thank you for listening.

Scottish Mortgage Annual Past Performance To 31 March each year (net %)

2018	2019	2020	2021	2022
21.6	16.5	12.7	99.0	-9.5

Source: Morningstar, share price, total return.

Past performance is not a guide to future returns.

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