BAILLIE GIFFORD US EQUITY GROWTH – MANAGER INSIGHTS

Gary Robinson, investment manager and partner at Baillie Gifford, sets out his thoughts on the investment environment and responds to questions on inflation, valuation, and the outlook for the US Equity Growth Strategy.

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

This film was produced and approved in February 2022 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

Fraser Thomson (FT): Thanks very much for joining us for this short video from the Baillie Gifford US Equity Growth strategy. I'm Fraser Thomson, one of the investment specialists on the strategy and I'm joined by Gary Robinson, who is a partner of the firm and a manager of the strategy, and that includes our US Equity Growth funds worldwide, as well as Gary also being a co-manager of the Baillie Gifford US Growth Trust.

This discussion will last around 10 minutes and we're going to put to Gary the most topical questions coming from clients. We hope you find this discussion useful. So Gary, getting straight into it, it has been an eventful past couple of years, to put it mildly. What's your take on the current environment?

Gary Robinson (GR): Yeah well you're right there Fraser, it has been eventful. The last couple of years have been really volatile. The portfolio delivered very high returns, as you know, in 2020 and then that was followed by returns well below the benchmark last year, and so far in 2022. Now if you net those periods out, performance is still strong overall but candidly it's never easy to go through a period of significant underperformance like the one we're going through now. And we understand the challenges that it can present for clients too.

The way we're approaching the current period is by sticking to our philosophy and process. So we're focusing on the long-term potential of the businesses that we invest in rather than the short term share price moves. And whilst share places have been volatile recently fundamentals have been holding up well.

I was looking at the growth characteristics of the portfolio last night and they remain pretty extraordinary. If you just look at the last reported period which, for most of the stocks and portfolio was Q3 last year, the median revenue growth rate for a stock in the fund was 45 per cent year over year. And around two thirds of the portfolio by weight is currently growing revenues at over 30 per cent year over year. We've talked for many years now about an abundance of growth in the US market and that's very much still the case, even if some of the pandemic beneficiaries that we own are coming out of this period and lapping tougher comps as the world starts to open up again.

Now one important part of our philosophy and process are our forward looking hypotheses. For each stock in the portfolio we write a short paragraph outlining how we expect fundamentals to play out over the next five to 10 years. These forward looking hypotheses enable us to track home investments are progressing and spot when things are off track. We've been spending a lot of time revisiting these forward looking hypotheses over the last few months and, in most cases they're very much on track which we find encouraging.

FT: Thanks Gary. Picking out one of the most prominent recent news items there's been a lot of focus on rising inflation, the prospects for rising interest rates and tighter monetary policy. How important do you think that is likely to be to the future returns from US equities generally and from this strategy specifically.

GR: I don't have a view on the broader market. What we're trying to do with these funds is identify and own a very small subset of the market that we call the exceptional growth companies. And these are the companies that address large market opportunities, that possess strong and sustainable, competitive advantages and that have distinctive cultures.

And in our view, the main driver of outcomes, by far, for these stocks are going to be the structural growth opportunities that they address rather than macro factors. These macro factors can play a role at the margin, but structural growth is by far the most important determinant of the long term potential.

Now in the shorter term inflation expectations and changes in inflation expectations can cause some volatility. But we've got to remember that we're investing in real assets and that these are strong companies that have got the potential in the long term to pass inflation on to their customers and so that's why we focus on fundamentals, rather than macro factors.

FT: And looking at those fundamentals for the companies we do hold specifically I think it's fair to say that a good proportion of the portfolio was catapulted into the limelight during the pandemic and saw their valuations rise on the back of that.

How do you think about valuations for those sorts of companies over the next few years.

GR: Our approach to valuation hasn't changed at all. At a minimum we're looking for a two and a half times return from our holdings over five years. And then we also look for outlier potential beyond that two and a half times return and so we've been continuing to reassess our holdings against these benchmarks on an ongoing basis. And many of the stocks in the portfolio did see demand accelerate during the pandemic and naturally we're seeing growth slow a little bit now as the world reopens again.

But a lot of these companies are coming out to the pandemic far stronger than they went in. So take Shopify is an example. Shopify is a provider of software for online merchants. The pandemic has completely transformed the scale of the business so over the last two years Shopify's revenue and gross merchandise value have tripled and it now accounts for about 10 per cent of all ecommerce sales in the US.

And this scale has been really critical for Shopify because it's meant that it's no longer just the platform of choice for merchants, but it's also become the partner of choice for marketplaces that are looking to integrate ecommerce into their offerings.

The company recently signed partnerships with Facebook and Instagram Shops, for example, and tik tok as another partner, and most recently they just signed a distribution agreement with jd.com. So as Shopify has gotten bigger it's become a much more critical part of the overall ecommerce ecosystem, which is enabling it to forge more partnerships, which is making the platform more valuable for merchants. And, which is making the platform more attractive for potential partners and so on.

Another large holding in the fund is Moderna. Moderna is famous for making the Covid vaccine. But that's not why we bought the stock. We first invested in Moderna, at the time of the IPO long before Covid because we were excited about the broad potential for its MRNA technology.

Now what the pandemic has done for Moderna is that it's it's accelerated the company's path to market and its path to profitability. And that's enabling Moderna to invest more in its pipeline, and this is exciting, because the potential for MRNA is very broad.

Moderna is now working on treatments for areas of very high unmet medical needs like HIV like cancer and like cardiovascular disease. And what the pandemic has done is enabling Moderna to invest much more and to move much more quickly than it would have been able to do if the pandemic hadn't happened.

FT: Thanks Gary I think you touched on it in your earlier comments, this idea we might be coming back to a new normal. So on a forward looking basis, how are you positioning the strategy for that kind of environment and has the nature of where you're looking for companies with the kind of return potential you seek, has that changed.

GR: Our positioning and our thoughts on the future haven't changed at all. We're still really excited by the growth opportunities ahead. Now, one of my own biggest takeaways from the last couple of years is just increased conviction that technology has got the potential to solve some of the biggest problems that humanity faces, so I just mentioned Moderna, you know what we've seen over the last couple of years is this new technology modality in healthcare, MRNA, being used to produce a vaccine against infectious disease in record time. And this MRNA technology has got really broad potential and I'm excited to see where it goes next.

It's also looking increasingly likely that technology will be our biggest and most important weapon in the battle against climate change, so solar is continuing to march down the cost curve and it looks like we're now on an inevitable path towards clean abundant and almost free energy.

And then, much more broadly you look at software and AI you know these technologies are starting to remodel just about every segment of the economy. And that's leading to improved products and services for consumers, but also it's leading to lots of opportunities for entrepreneurs to found new innovative businesses and it's creating opportunities for investors.

So I don't have a view on what's going to happen with the markets or the fund in the short term, but I do still have very strong conviction that we are in the early stages of what I think will prove to be one of the biggest periods of technology led change in history, and I think because of that the best opportunities for the growth companies that we invest in are still ahead.

FT: Great well thank you very much for your thoughts Gary. In the interest of time, I'm afraid we'll have to stop it there.

To summarize, we understand that volatility is uncomfortable and can be really difficult to live with. But given the scale of some of the changes underway that Gary's talked about, we still think we'll do the best job for you, by looking for exceptional growth companies benefiting from structural changes over the next five to 10 years and investing in a committed fashion behind them.

I know that this discussion may well have prompted further questions so if you would like to continue this conversation, then please get in touch with your Baillie Gifford contacts who will be happy to arrange follow up but for today, thank you for your attention and good day.

GR: Thank you.

Annualised total return as of 31 December 2022 (Net %)

	1 Year	5 Years	10 Years
US Equities Composite	-4.0	33.4	22.6
S&P 500	28.7	18.5	16.6

Baillie Gifford American Equities Composite Past Performance
To 31 December each year (Net %)

	2017	2018	2019	2020	2021
US Equities Composite	35.4	8.9	30.5	128.3	-4.0
S&P 500	21.8	-4.4	31.5	18.4	28.7

Source: Baillie Gifford & Co and relevant underlying index provider(s)

Net of fees returns have been calculated by reducing the gross return by the highest annual management fee for the composite. All figures quoted are in US dollars.

Past performance is not a guide to future returns

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