MANAGED FUND MANAGER INSIGHTS

STEVEN HAY AND LUCY HADDOW

Steven Hay, Co-Manager of the Managed Fund, discusses the current environment and why it is imperative that we stick to our investment philosophy,

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

A Key Information Document for the Managed Fund is available by contacting us.

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

Lucy Haddow: Hello, my name is Lucy Haddow. I'm a product specialist for the Baillie Gifford Managed Fund. In a very difficult period for performance, we've put this brief film together to give you the opportunity to hear from one of the fund's co-managers, Steven. Hay. Welcome, Steven.

Steven Hay: Hi, Lucy.

Lucy Haddow: You and I both know very well that it's been a torrid time for investors in the Baillie Gifford Managed Fund over the past 12 months or so. The fund is down around 28% to the end of June 2022. Can you talk a little bit about what's been going on and what's driven the extent of underperformance that we've seen?

Steven Hay: Well, as you say, Lucy, it's been a really difficult time for investors, especially the newest investors in the fund. Very volatile, markets have been very difficult. We've actually seen more than a complete reversal of the outperformance we saw for the previous 12 months that has been really volatile. What's been going on? Well, clearly, there's been inflation, resurgence of inflation, and that's led to expectations of interest rates going up.

That means markets discounting future profits of companies by more. The types of companies that we invest in, the growth companies, which often have their profits further out into the future, because of great growth prospects, they've been hit the toughest and hardest in the market. So the likes of Zalando, Shopify, etc., where prices are often down 70% to 80%.

And what's interesting, though, is that actually, operationally, these companies are doing well. So, across the portfolio, this is not a case of our companies performing badly and therefore, being hurt by the market. It has very much been a sentiment shift, driven by this change in inflation and interest rate outlook, which has hit, often indiscriminately, across many of the growth companies that we hold.

Lucy Haddow: So, there's a huge amount going on, not just in markets, but in the world more broadly. How do you and the team even begin to think about that, in the context of the holdings in the Managed Fund? What are you doing in reaction to this very different environment that we find ourselves in?

Steven Hay: Well, the first answer is that we're really sticking to our investment philosophy and processes. No change there. No change in the team that's carrying out this task. So, we're really just sticking to our investment task. And of course, importantly, that's reviewing the investment cases or reviewing all our holdings. Thankfully, we're able to get out an about now, post COVID, and go and see these companies, go and meet the management and challenge those investment cases, so that's really important.

For example, the European portfolio. We have certain companies that have been hurt in share price terms we've been adding to, because we've reviewed the cases and we think they're really strong from here, so adding to those. But there are some companies where the investment cases haven't been working out quite as well as we would have expected ,so we have been thinking hard about those. The likes of Netflix and Peloton.

So, meeting the management, challenging the management, reviewing it internally, and seeing where we think the growth prospects are from here. And then there are also the cases that haven't worked out. So, every quarter, there are some investment cases, which don't work out and we should expect that. And the last quarter or two have been no different. So, for example, Vroom, the online car business in the US, we looked at it again, we reviewed it, and we decided that the balance sheet risks actually overwhelmed the opportunity for a return from here.

And so, we exited that position. And then on asset allocation, people will know that we don't move hugely in terms of asset allocation. It is very much bottom up led. But what's interesting, perhaps, is that a year or two ago, we had cash in up to 10% of fund, because we felt the opportunities to spend that cash weren’t that great, given valuations.

Now that cash has come right down to about 2% in the fund, which really reflects the fact that we're seeing the appetite from our all our underlying managers to invest that cash, be it in equities or even in bonds, where the move up in yields has made the investment case for bonds more attractive from here. So, although, as usual with Baillie Gifford, we’re patient and we're not changing lots of things, we're not sitting on our hands doing nothing. We are still concentrating on the investment task at hand.

Lucy Haddow: Well, hopefully, our investors find that very reassuring. One of the questions that I get a lot, and I'm sure you do, too, is in terms of the outlook from here. What is the decade ahead going to look like for growth investors? And ultimately, why should clients remain confident in what we're doing in our ability to deliver capital growth over long-term periods?

Steven Hay: Well, Lucy, we know the next ten years will be quite different from the last ten years. We know that. But the Managed Fund has been going for 35 years now. It's seen lots of different cycles and market crises, etc. So, concentrating on finding growth companies is the key to investment success. Now, what that growth looks like may be different in future, the more it's in the past.

So, although we've had a heavy tech bias in the portfolio for quite some time, that may be different going forward as we look for those growth companies. But importantly, we are finding new ideas. We've not got out head in the sand, just looking at existing holdings. We are getting out and about and finding new exciting ideas from the likes of Ocado, which is the grocery online distribution business, great technology, able to licence that globally. We think it's very exciting opportunity.

And then Roblox, which I know well from my eight year old twins, who play Roblox games. It's a gaming company. We've followed it since IPO. We're now convinced that the ability to move the gaming into older age segments is there, and that will help with the monetisation. So, that's another really exciting idea that's come into the portfolio. But overall, I would say it's been a difficult period. We have had difficult periods before.

In the long run, concentrating on finding great growth companies is the important thing. And as my co-manager, Ian, would say, stick to our knitting. That's what we need to do. Don't get too distracted by short-term market noise, but concentrate on the company's operational performance and the growth prospects from here.

Lucy Haddow: Thanks, Steven. And thank you very much for watching, and, of course, for your ongoing support of the Ballie Gifford Managed Fund

Annual Past Performance to 30 June Each Year (%)

	2018	*2019*	*2020*	*2021*	*2022*
Baillie Gifford Managed Fund B Acc	*11.5*	*7.2*	*16.1*	*26.9*	*-28.3*
IA Mixed Investment 40%-85% Shares Sector Median	*4.9*	*3.7*	*0.0*	*17.2*	*-6.4*

Source: FE, StatPro, net of fees, total return in sterling. Class B Acc shares.

The manager believes an appropriate comparison for this Fund is the Investment Association Mixed Investment 40-85% Shares Sector median given the investment policy of the Fund and the approach taken by the manager when investing.

Past performance is not a guide to future returns.

IMPORTANT INFORMATION AND RISK FACTORS

The views expressed in this article should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

Custody of assets, particularly in emerging markets, involves a risk of loss if a custodian becomes insolvent or breaches duties of care.

The Fund invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.

The Fund's share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the Fund is priced.

This article contains information on investments which does not constitute independent 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.

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

The images used in this article are for illustrative purposes only.

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.