

LONG TERM GLOBAL GROWTH – PHILOSOPHIES – LONGEVITY MARK URQUHART

Investment manager Mark Urquhart would love to see companies currently in the portfolio still having their place in it in 2050. For him, it is not enough for businesses to endure, they must adapt and, crucially, be brave enough to disrupt themselves, if they are to manifest growth for many years to come.

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Mark Urquhart: I would love for there to be companies in the portfolio today, 2016, that are still there in 2050 and are still growing.

I'm Mark Urquhart, one of the portfolio managers on the Global Equity team at Baillie Gifford and I've been involved with that team since its inception in 2003.

I wrote a paper about longevity because I was interested in it from a perspective as a long-term investor. I think there are two different definitions of longevity, there's the literal one where obviously if something is long-lasting, it has longevity. For us what's much more interesting are what creates longevity and I think there is a lot of interesting cultural attributes surrounding that; how companies think about themselves, how they reward themselves, how they allocate their capital, the decisions they take today that lead to outcomes in ten or 20 years' time.

Sometimes we refer to seeing companies go through the teenage years, in the sense that they've had the initial idea, they've prospered with that. The real success stories are those that come through those teenage years, and not everyone gets through it successfully – some will fall by the wayside – that's fine, it's our job to spot those which can turn into the growing and maturing adults.

It's not just enough for businesses to endure. You want businesses that can also adapt. I think it's really important when we think about businesses, how can they react to different circumstances? Are they brave enough to disrupt themselves? There are many instances in our portfolio where companies have actually created new markets going against themselves. Think of the Kindle and Amazon – people thought they were daft to launch that because books was their core business. But, actually, they've now got over half the market in digital books; it was an absolutely crucial business decision and has allowed Amazon to carry on growing and be a long-lasting business.



I think economic theory really struggles to cope with the concept of longevity. It's all about rational agency, it's about efficient frontiers, it's about returns being bid down by new capital coming in. And that doesn't capture what to me is often the essence of longevity, which is creativity, which is brand, which is craftsmanship. Think of the example of Hermes, one of my favourite companies in the portfolio – it's been around since 1840 making leather goods. That shouldn't exist in theory because others should come in, they should be able to bid it down, they should be able to replicate. But actually, it's precisely because they've been making these bags for so long that they're so sought after and they have these iconic handbags that no one can recreate. That's really special but it's very very hard to value.

There's a lot of subjectivity involved in valuing any intangible asset, it's not straightforward. But to me it's actually one of the single most important parts of a company – that's the heartbeat, that's the DNA of a corporate entity, and that's what keeps it alive for so many years. So it's vital that we try to think about it and it perhaps lets us have a difference from other people in the market.

Longevity involves having the right products; it involves society; it involves what your competitors are doing; it involves making sure that your products don't become defunct, so you can be a long-term company but not ensure longevity. An example would be Kodak, which had existed for many many years, wasn't adaptable, invented the digital camera, shelved it because it wanted to protect its initial business in film, and then went bust. It was a long-term business, had long-term outlooks, but it didn't have longevity. So, it's not about companies lasting for a long time per se. For us it's all about having these long-lasting businesses which are also growing, because that's a really powerful combination when you put a business that can last for many years and it's growing at a significant rate – that's very exciting for us.

We think that management is absolutely crucial. You want people that are absolutely passionate, they're not there for three or four or five years just renting the corner office, they're there because they love the business, they're there because they want it to endure, they're there because they want to build something that lasts 30 or 40 or 50 years, and in many cases they spend their entire working life at those companies.

Take Jeff Bezos at Amazon, the third richest man in the world. He doesn't need to go into Amazon every morning but he's the first there, he's the last to leave. And he wants that business to be around in 50 and 100 years' time, long after he's flown off on his rocket.

Every company we look at we put through a 10-question stock framework. And as part of this process of looking at longevity, I've been interested in whether we should look at question four particularly which focuses on business culture, think about its differentiation, think about its adaptability, what the preconditions are for longevity of business culture.

Question nine for us is about is the business attractively valued, and it's got me thinking about how attractive is the valuation over five years, over ten years, over 15 years. I feel more and more strongly that the search for longevity is something that Baillie Gifford can really differentiate itself with against the myopia of the short-term market. For me, longevity is a key engine of growth. If you think about what we're trying to do, we're looking for companies that are growing in ten years and beyond, and longevity opens the door to that. It allows these companies not just to grow for the first couple of years but to actually have long-lasting growth. That's really powerful when the market is so focused on the short-term.



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