

---

# *SHORT BRIEFINGS ON LONG TERM THINKING – EPISODE 27*

---

Why ‘what if...?’ is the most vital question for investors

MB Malcolm Borthwick

KG Kirsty Gibson

MB Hello, and welcome to *Short Briefings on Long Term Thinking*. Thanks for joining us. I’m Malcolm Borthwick, managing editor at Baillie Gifford.

Change is often uncomfortable. Cast your mind back to being told you couldn’t see your friends or family because of Covid, or a time your travel plans were disrupted because a plane was cancelled.

For many of us, stock market volatility is the latest source of anxiety. And it’s natural to feel concerned. Our brains are wired to prefer incremental change over sudden bursts of activity beyond our control. So, as investors, how are we thinking about the recent market turbulence?

To find out, I’m joined by Kirsty Gibson, joint manager of both the Baillie Gifford US Growth Trust and American Fund. But before we start, some important information. Please remember that, as with all investments, your capital is at risk and income is not guaranteed.

Kirsty, welcome to *Short Briefings on Long Term Thinking*.

KG Thanks, Malcolm. Thanks for having me back. It’s been a long time since I was here last time.

MB There’s lots of volatility on the stock market at the moment. Is this a good time or a bad time to be a growth investor?

KG It’s a very exciting time to be a growth investor, but I think it’s a very uncomfortable time to be a growth investor. That’s because we’ve had a lot of questions over the past year probably about bubbles and overheating and growth-versus-value and what remains exciting.

Those questions are by no means unfounded, but what makes them most interesting



to me is that they're representative of this idea of the human condition, that the human brain is wired to handle incremental change. And we've experienced a lot of change over the past few years.

We'd all like to believe we're heading towards a period of stasis, where all of that change is bedded down and we can begin to relax into a new normality. But what's really interesting to me, and what makes being a growth investor really exciting right now, is what if we are just at the tip of the iceberg of what change is yet to come?

MB So how do you stay focused on the long term at times like this?

KG What we're trying to do is to find really great businesses. And in order to do that, we have to accept the uncertainty that comes with that. It's about recognising asymmetry. It's understanding that plans are not full of straight lines, that they tend to zig and zag, and it's recognising that straight away. It's therefore opening your mind to the possibility of what a company can become, what a business could achieve in the future rather than looking at what it is today and extrapolating from there.

Because I think that is how we as humans feel most comfortable, it's that we reason by analogy. We like to say, 'well, this becomes the *this* of this', Uber was the *this* of taxis, etc. I think we like to reason by analogy. And actually, we need to break out of that habit in order to imagine, if you're going to invest on a five- to ten-year view, what a company could be.

MB And imagination is all about thinking differently. Let's have a listen to this.

[Dee Hock:] "*We have all, individually, developed an internal model of reality which is based on the machine and on mathematics, and it's simply antithetical to human life and destructive of the biosphere.*"<sup>1</sup>

MB We have heard this person on the podcast before, because your colleague, Gary, talked about him in episode 21, when we talked about chaordic organisations, the balance between chaos and order. Tell me a little bit more about who this is and why what he says is significant.

KG So this is Dee Hock. And Dee Hock was actually the founder of Visa. Now, Visa came out of a necessity, I guess, with a group of banks in the US. And they decided that they needed a new way for people to be able to pay on credit, and they all clubbed together. And I guess you could say Dee Hock was the leader of that.

He wouldn't probably class himself as a founder because of this idea of chaordic organisations, this blending of chaos and order. He provided the guide rails. He helped them to lay down the guide rails and he led that business. And interestingly, when that was over, when he decided to take a step back from leading Visa, he actually returned to farming. He decided, 'well, my job is done', and that's where

---

<sup>1</sup> Source: *The Innovation Show with Aidan McCullen*, "Part 1: Visa Founder and CEO Dee Hock: One from Many: VISA and the Rise of Chaordic Organisation", <https://www.youtube.com/watch?v=J4h7cW8eOdu>, 07:45.



he spent the rest of his days, was doing that.

And I think this plays into this idea that humans have a preference for structure, and ultimately for control. And this runs counter to the creativity of human beings as a species. And you have to think outside of the box in order to invest on a long-term basis. I think that's why this quote rings a bell with me, is because we really want this kind of control. And the more we go through life, I guess the more we try to put controls on top of things. And actually, we need to break out of that and to think about things in a completely different way.

MB But thinking in a completely different way and imagining isn't easy, is it?

KG No. If we just look at your iPhone in front of you, when Bardeen invented the transistor, no one predicted the iPhone. That was 1948. Of course, no one was going to predict the iPhone. And that's not unexpected. We have to accept that we cannot predict the future, but that doesn't mean that we can't hypothesise about the future.

I think there's a couple of characteristics that we can place emphasis on to understand if we think businesses can achieve different things and solve new problems that may or may not emerge in future. And one of those is to do with adaptability. It's the ability of a management team to be able to alter the path that they're on to navigate different situations, whether they be internal challenges or whether those be external forces like the macro environment, for example.

MB And give an example of a company that you can think of that fits into that.

KG I think most companies that you have, where you have a real strong founder leading that business, are very much adapting. So, a great example would be - actually, the previous time I was on the podcast, we spoke about synthetic biology - so a company would be, for example, Ginkgo Bioworks.

We first invested in Ginkgo when it was a private company. Ultimately, this business is looking to make biology programmable, so to put the tools of biology into human hands. And it was very much focused on the flavour and fragrance industry. That was the opportunity that they had in front of it.

You fast forward six, seven years now, and they are in agriculture and pharmaceuticals. They're doing some work with regard to monitoring, biosecurity, monitoring for pathogens, for things like Covid. And that's because that's a management team that's adapted with the fact that that business has evolved, and the opportunity set has grown over time.

MB So it's probably impossible to envisage what these conceptual breakthroughs are. Maybe also in the early days of Amazon, who was to know that it would be the cloud that would make so much revenue for the company in the future. So, is it more really about, sticking with what you're saying, about the culture of the organisation and the founders of those companies?

KG Yes. For me anyways, the starting point is to try and understand what motivates those individuals. It's about looking back at their childhood, their upbringing. It's



about how and why they make the decisions that they do, and then being able to think about the future at different junctures - because we're all going to hit those different forks in the road – at those forks in the road how do you think they are going to react based on the foundational beliefs that they have from life experiences that they have gone through? And that helps you to build conviction.

And ultimately, what we're talking about as a long-term investor is building hypotheses. And those hypotheses are about saying, 'what do I think could happen?' But a hypothesis is great, but if you don't have any conviction in that hypothesis, it's just an idea. And the only reason that you can make those ideas actionable is by starting to build your conviction in that idea. And some of that conviction comes from the fact that you learn and understand what motivates the management team.

MB Another example of a sector that's going through transformational change, in terms of imagining the future, is the metaverse. And in many cases, chatting to some investors within Baillie Gifford, they question whether or not the metaverse exists at all.

KG Yes, I think it's quite a difficult one, and I think there's a difference because there's lots of different companies now talking about it in different ways. On the one end of the scale, you have this idea of the full-scale 'we're going to live in a completely different world', and then at the other end, you have a company like Snap, for example, that's more talking about this idea of a mirrorworld. So, it's about augmented reality. It's about accentuating our world and adding a layer on top, rather than us living in a completely different world.

And actually, a private gaming company that we have in the portfolio as well, called Niantic, which was behind Pokémon GO, the CEO of that business, John Hanke, has quite strong views on this as well. This idea that, actually, what you want is you want people to go outside. We don't want people more in their heads. That would be his argument. We want people to go outside more. So, I think the jury is out. It's not necessarily clear that it's going to play in one way or another.

I like the idea of this mirrorworld, that you would get to a point where I could approach a statue, for example, and I could learn about the history of that statue or I could perhaps play a game with my friends or I can have a photo, etc. But it augments the world around us. It doesn't mean that we want to block the current world and create a new one. It's more about taking what we have around us and saying, well, how do we make this better?

MB So was that his idea behind Pokémon, in the sense you go around collecting figures, that he wanted to get people outside and for it to be more immersive?

KG Yes, it's one of his big things.

MB Wow.

KG It's one of his big things. It has been. There's a letter on the Niantic website, where he's made a declaration of what he believes, and why. And so, I think that Niantic



and Snap are more closely aligned in that respect. A lot of what Snap is trying to do is to say, we can make the Snap camera and the lenses that Snap has available to everyone. We can power your mobile app. So, Disney’s mobile app, when you go into their parks, all that augmented reality is powered by Snap’s cameras.

MB Another company that I’m really interested in that you invest in, Kirsty, is Zipline and how that’s transforming the logistics industry.

KG Yes. So Zipline is an autonomous drone delivery company and it’s based in San Francisco. And I think when you say drones, everybody thinks of the military, and that’s not what Zipline is looking to do. It’s looking to transform what is possible in logistics. And it was founded with the mission of creating the first logistics system that serves all humans equally. And it’s making really great progress against this goal while disrupting existing last-mile logistics solutions.

We first invested in the business in 2018 and their company has had a really direct impact in helping many nations in Africa with the delivery of, well, actually, blood products, but since then, Covid vaccines as well. They started out in Rwanda, where the government actually hired Zipline to deliver blood and medical supplies to hard-to-reach rural locations.

They set up what they call nests, which are little launch sites where they launch these drones. And these drones will fly to more rural hospitals or health centres, and they can deliver things like blood and medical supplies.

Now what’s really interesting is this allows governments to better manage their planning, because you can actually therefore send things that are closer to expiry date. You can actually send them at that point because you know they’re going to arrive in time. You know that they’re on a flight that’s going to take less than 24 hours, etc.

And actually, Zipline’s automated delivery system is now the largest in the world. And it’s flown significantly more miles and made more commercial deliveries than its closest competitors. At the time of their last public disclosure, they’d had over 300,000 commercial flights, covering more than 20 million miles, and all done autonomously and all done with zero incidences of injury to anybody. Because I think what people fear is a drone falling out the sky and dropping on their head.

So, they now actually operate on three continents and they’re currently running a commercial trial in the US for Walmart, delivering people with their groceries delivered to their garden.

When I was last in the US earlier this year, the CEO showed me a video. He went on a walkabout, I guess, with the CEO of Walmart and him to this place called Pea Ridge in Arkansas, which is where they’ve been doing this experiment. And he’s basically standing in people’s back gardens and watching fully-grown adults almost jumping up and down when a drone came in and dropped a bag of Walmart shopping on their front lawn.

So, there’s an opportunity there for them to expand into the grocery delivery in the



US, and also potentially delivering pharmaceutical products as well in the US. They've got a few relationships there. But it's just really interesting that this has been a business that's been highly, highly successful in really solving a logistics problem in emerging markets. And they're taking that learning and bringing it back into the US.

MB Yes, visually, it's extraordinary looking at their website in terms of how they have launchpads just to fire off the drones, isn't it? It's extraordinary.

KG Yes. And they've delivered over a million Covid vaccines in Rwanda and Ghana. And I think there was a piece of work done by the Bill and Melinda Gates Foundation that showed Zipline's has had a direct influence on the ability of the individuals in rural parts of Africa to access vaccinations.

MB And that's a great positive note to end the podcast, Kirsty. Thanks very much for joining us.

KG Thank you very much.

MB And thanks to you, the listeners, for investing your time in *Short Briefings on Long Term Thinking*. You can find our podcast at [bailliegifford.com/Podcasts](http://bailliegifford.com/Podcasts) or subscribe at Apple Podcasts, Spotify or on TuneIn. And if you enjoyed the conversation, you can check out previous discussions we've had on the podcast, such as why private companies matter more to exploring the innovative Scandinavian country that has unearthed global giants such as Ericsson, Spotify and IKEA. What's its secret? Find out by listening to the podcast.

And there are 26 other episodes, so plenty to choose from. And if you're listening at home, you're listening in the car, wherever you're listening, stay well, and we look forward to bringing you more insights in our next podcast.

### **Important Information**

*Investments with exposure to overseas securities can be affected by changing stock market conditions and currency rates. Investments with exposure to a single market may increase risk. The Trust's risk could be increased by its investment in private companies. These assets may be more difficult to sell, so changes in their prices may be greater.*

*The views expressed in this article should not be considered as advice or a recommendation to buy, sell or hold a particular investment. The article contains information and opinion on investments that does not constitute independent investment research, and is therefore not subject to the protections afforded to independent research.*

*Some of the views expressed are not necessarily those of Baillie Gifford. Investment markets and conditions can change rapidly, therefore the views expressed should not be taken as statements of fact nor should reliance be placed on them when making investment decisions.*



*Baillie Gifford & Co Limited is wholly owned by Baillie Gifford & Co. Both companies are authorised and regulated by the Financial Conduct Authority and are based at: Calton Square, 1 Greenside Row, Edinburgh EH1 3AN.*

*The investment trusts managed by Baillie Gifford & Co Limited are listed on the London Stock Exchange and are not authorised or regulated by the Financial Conduct Authority. Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.*

*A Key Information Document is available by visiting [bailliegifford.com](http://bailliegifford.com)*

