

Baillie Gifford Managed Fund Q3 investment update

October 2024

Investment manager Steven Hay and investment specialist Lucy Haddow give an update on the Managed Fund covering Q3 2024.

Your capital is at risk. Past performance is not a guide to future returns.

Lucy Haddow (LH): Hello, and welcome to this update on the Baillie Gifford Managed Fund. My name is Lucy Haddow, I'm a specialist on the fund, and I'm joined today by Steven Hay, co-manager of the fund since 2012.

There's been a huge amount going on over the last few months. We've seen rate hikes in Japan, rate cuts in the US, a market rally in China. And that's before we even get to what we believe is the most important thing, what's been going on with the fund's holdings.

Over the next 10 minutes or so, Steven and I are going to explore recent performance, changes that we've made to the portfolio, asset allocation, and hopefully give you a real sense as to our optimism for the opportunity for the Baillie Gifford Managed Fund to deliver long-term returns.

Before we delve into that, a brief reminder that we've been running the fund since 1987. It has a strategic benchmark of 75 per cent equities, 25 per cent bonds and cash. And as with all Baillie Gifford strategies, our focus is on long-term bottom-up growth investing.

Steven, let's start with performance. There are some reasons for optimism this quarter, aren't there?

Steven Hay (SH): Well, that's right, Lucy. And I think you mentioned the rate cuts at the beginning. So, the macroeconomic environment has been a bit more stable and promising. So, we've seen rate cuts and for good reasons. So, not because growth is falling significantly, but because inflation seems to be under control and the central banks are happy with that.

So that's led to a bit of stability and optimism in markets. And that's been helpful. We've seen share prices react a bit more to fundamentals than we've maybe seen over the last few years.

The US market may be still a little bit jittery, but generally a bit more stability. So that's been good for our holdings. And we've seen – we're obviously focused on the long-term performance, but it's been pleasing to see that over three months and over 12 months, we're at top quartile in terms of the managed fund performance, so that that performance is coming through steadily. So that's good.

And maybe just to pick out a couple of names and what's done well. So M&S, which we all know. Well, I say love, but the market didn't love it for quite some time. It had been out of the FTSE 100 for quite some period. It's a great turnaround story. So Iain McCombie, my co-manager, he met the CEO back in June and was really impressed by his almost encyclopedic knowledge of the range of products and pricing, etc. So great turnaround story. That's progressing well in the portfolio. It's back in the FTSE 100.

Nexans, which is the French cable company, underwater cable company, and it's doing very well. It announced during the quarter that it's got a new deal for the Great Sea Interconnector project. So this is laying cables between Greece and Cyprus for electricity transmission. And I think the important point is it highlights how unique Nexans' skill is in terms of these underwater cables. And that's a key part of the green transition.

Maybe not so positive on ASML, so a longstanding holding, the Dutch lithographic company, very important for semiconductors. Their earnings announcements were slightly below the market expectations, so the share price came off as the market wrestles with the U.S. imposing more restrictions on sales to China. So we still think the growth runway is extremely good for this company. So we're not worried about any short-term underperformance.

And maybe just to mention on the bond side as well, some of the financial sector bonds that we hold have done well, the likes of Barclays. And that's really when rates are higher and coming down, that's a great environment for some of these financial sector companies.

LH: So it's really nice to see a better quarter, a better 12-month period as well. How do you, Iain, and the rest of the team ensure that we keep adding value for clients over those longer term periods? Because we know the last three, five years haven't actually been particularly easy. We've seen a huge amount of volatility. So how do you keep focused on the long term?

SH: You're right, it's been frustrating because we haven't seen share prices react to fundamentals the way we think they should. And Iain, my co-manager, is fond of saying we should stick to our knitting. And that is finding those great growth companies and just focus on that task. Investing is difficult. Let's keep it simple.

And I think that the environment changing more positively is helpful. So a soft landing or no landing would be helpful for the fund. And rates coming down would be an additional tailwind. So that's kind of the environment we're in.

So I think we're seeing, well, that environment should be a bit more supportive for the share price of the companies that we hold. But ultimately, we just have to focus on that job of finding the great growth companies.

And we know the types of companies we hold in the Managed Fund are robust. So we have lower debt than the index. We have earnings growth that's faster than the index. And we're a very well-diversified portfolio. So we are robust to different macro environments, but we know that the one we're looking at at the moment should be supportive for the fund.

LH: And that's something that you've explored in a recent paper on the bond portion of the portfolio, so Navigating the Bond Landscape, which is available on the website if people are interested in reading that.

SH: Thanks for the plug.

LH: I guess moving on to kind of where we're then finding opportunities, there's been quite a few new ideas making their way into the portfolio. There's one in particular that's caught both of our eyes.

SH: Well, that's right. There's one that we both like, which is Shark Ninja, which is the US domestic appliance manufacturer. I think you've got the steam mop. I've got the air fryer and great products.

And what we like about the company is that it's got a great runway for innovation, so it's trying to solve people's problems, and they aim to have 20 to 25 new products every year. They've got a very efficient supply chain, a strong distributor network, and really quite innovative marketing as well. So that's a company that we like.

And it's interesting, we funded that out of a reduction to NVIDIA. So NVIDIA has obviously done very well. It's been one of the largest holdings in the fund. It's still a significant holding, but we just felt that there was a bit more competition coming in in some of the less intensive performance areas of the chip market. And its margins have been so high that there was some risk around that, and especially bearing in mind the cyclical nature of the semiconductor market. So we reduced there.

There was a complete sale, actually, so we sold our holding in Kering, which is the luxury goods manufacturer, with Gucci as the dominant brand within that group. And it's just failing to reposition itself. And the turnaround story isn't happening as much or as fast as we would like, so we exited that one.

And then on the bond side, we added to our holding in Mitchell & Butler's, which is the UK's leading pub group. And they've been doing very well, good sales and reducing debt faster than the market. So, we don't think the markets appreciated that. So, that was a reason to add to that holding.

LH: Lots of enthusiasm coming through and that was very much the tone of the meeting that we had with the equity managers, the fixed income managers in the last few weeks.

Can you talk briefly about where that then leaves us in terms of asset allocation, how that's feeding through to the policy setting group's recent decision regarding asset allocation for the fund?

SH: Yes, I mean a positive macro environment and loads of enthusiasm from our regional equity managers to be overweight equity. So we remain significantly overweight equities in the fund relative to our strategic weight that you mentioned earlier.

I will say that we have notched that back a touch just to reflect the good performance that we've seen over the last period. So we're mindful of that, but still remaining significantly overweight equities.

And actually back to full strategic weight in bonds, where we think the returns on offer from bonds for the risk, it looks very attractive, and underweight cash. So really reflecting the fact that we think that we are better to be invested in assets, equities and bonds than cash at the moment.

LH: Brilliant. Well, that's a really good place to end things. I hope that's given you a sense of what's been going on this quarter with the Baillie Gifford Managed Fund and really reiterates that it continues to provide exposure to the best global growth opportunities and equities balanced by allocations to bonds and cash.

We've managed this fund through various economic cycles over the past 37 years. And what that experience has really taught us is that what matters most is building a portfolio of robust, growing businesses that can make a real difference to client returns over the long term.

Looking ahead, there's no shortage of potential concerns on the horizon. We've got an election in the US, the budget in the UK, and that's before we then start thinking about further action from central banks.

In this environment, our view is that being discerning matters more than ever, being differentiated. And that's where our active approach really comes to the fore and gives us the confidence that the fund is well-positioned for long-term value creation. So, thank you very much for tuning in. And please don't hesitate to get in touch if you have any questions.

Baillie Gifford Managed Fund

Annual past performance to 30 September each year (net %)

	2020	2021	2022	2023	2024
Baillie Gifford Managed Fund B Acc	26.9	16.5	-28.2	6.4	16.0
IA Mixed Investment 40%-85%	-0.5	16.8	-9.6	5.1	13.8

Source: FE, Revolution. Net of fees, total return in sterling. Class B Acc Shares.

Past performance is not a guide to future returns.

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.

Important information and risk factors

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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.

Further details of the risks associated with investing in the Fund can be found in the Key Investor Information Document or the Prospectus, copies of which are available at [bailliegifford.com](https://www.bailliegifford.com).