LONG TERM GLOBAL GROWTH WEBINAR

Client director Tatjana MacLeod-Evans highlights the most notable discussion points from the recent LTGG webinar, in which investment managers Mark Urquhart, Gemma Barkhuizen and Linda Lin discussed turnover, valuation, China, ESG, and capacity.

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Tatjana MacLeod-Evans (TEM): We recorded an LTGG webinar at the start of February to give you a chance to hear from your investment team members, Mark Urquhart, Gemma Barkhuizen, and Linda Lin. They reflected on the extraordinary year we've just had and shared some thoughts about the future.

Fittingly, the name of the webinar was 'Reflecting on an Extraordinary Year'. And the topics we covered were turnover, valuation, China, ESG, and capacity. The webinar starts with Mark giving reflections on the past year and sharing some of our thinking going forward.

Mark Urquhart (MU): Real growth, real secular growth, is incredibly valuable. There's so much uncertainty in all asset prices at the moment. Governments have issued unparalleled amounts of debt. Interest rates almost everywhere in the world, you earn very, very little on cash. So the ability of equities, and especially growth equities, to provide that real growth, is incredibly valuable.

And as we looked at the portfolio at the tail end of last year, our five-year historic earning growth was about 30 per cent. Revenue growth even higher, above 40 per cent, which are the highest figures that I've seen in my time in LTGG. And I think the interesting thing is, for many companies, those are accelerating.

So the upside from here has been the central debate, really, for the team over the last 12 months. We spent a lot of time going through existing holdings and examining new holdings. The key question for us is, what does the world look like in 2025 and 2030? I can't remember a time in my career when more industries and more sectors are ripe for disruption.

Wherever one looks in the global economy, wherever you go, whether it's media and cinema, with Netflix and Disney Plus, the very idea of going to a cinema, and being constrained to attend movies at certain times, and sitting next to noisy people throwing popcorn at each other probably sounds like anathema to a lot of us. And it feels like the Rubicon's been crossed.

And I think that's the same when one looks at the food market, when one looks at health, and vaccines unlocking. We'll go through a lot of these examples. Very unlikely that we'll see a reversion to the mean, because the difference with previous crises was, we really just had to be patient, hold on to our growth stocks, and be confident that the growth would come back.

Lots of people are asking, well, will that happen in terms of some of the value stocks, in terms of some of the more old economy-type companies? Well, we don't think so, because, firstly, a lot of them have been absolutely annihilated. But, more importantly, the accelerant to change for their competitors, and new ways of doing things, has been a long-term consequence of the corona crisis.

TEM: I asked Mark about the uptake and turnover in the portfolio in the past year.

MU: This is a different crisis to before. So actually, if you went back to some of previous crises, our turnover was very low, because we felt the brief decision was to hold on to the companies that we had and identified. This time if feels, to me, certainly, and to the team we're building, to do our job properly we have to recognise some of the large changes.

There are companies where it does feel as if the market has come more around to our way of thinking. And so that's where some of that recycling of capital has come. But the flipside of that is, and I hope you've sensed today, in the audience, the excitement we have about these new companies and their ability to change the world in the same way that some of the existing holdings have in the last decade and a half.

TEM: Here, Gemma reflects on the team's thoughts about valuation.

Gemma Barkhuizen (GB): You know, the way that we think about valuation on long-term global growth is, we think about the long-term earnings potential of the company. We don't think about this year's earnings or next year's earnings, because, ultimately, those contribute a very, very insignificant proportion of company value.

And so, in that context when we're thinking about a multiple on this year or next year's cash, or earnings, or sales, our question is, really, just, has that multiple reached such a level that upside from here becomes more challenging? In that it requires us to make overly stretching assumptions about their future earnings power.

And when that is the case, then we do make reductions. As we've mentioned, we have done that with Amazon. We have done that with Tesla. But when that isn't the case then we think it doesn't make sense to just fetishize the optically high multiple in itself. And we think that this is the right approach in the context of the structure of equity returns, where it's really a very small handful of companies that account disproportionally for stock market outperformance.

It's a much, much worse mistake to not buy a company that ends up going up tenfold because the multiples seemed high at the beginning than it is to own a company with an optically high multiple that then ends up disappointing in terms of growth later on.

TEM: In this segment, Linda shares her thoughts about regulation in China, and, in particular, Alibaba.

Linda Lin (LL): We keep talking to different regulators about, how do they think about China? So, from Alibaba's case, let's see some numbers. So, this is the company providing jobs, indirectly, directly, to more than 100 million people in China. And this is a company that facilitates 1 trillion GME transaction value for the consumption upgrade.

I'm sure there will be some ups and downs about the regulation. But this is a company spending around 20 years talking with the Chinese government. I know there's antitrust, there's an issue. But I think that the trust in the management team gives us a confidence that this is a company that can get through this noise from the market. And the opportunity for Alibaba remains so exciting.

This is not only an ecommerce company. This is a company building the digital economy for China from the cloud to the payment system, from the sales care to the consumption. And also, we had a call with the CEO of Alibaba, and CFO, last week. And I think we were a few investors that had the opportunity to communicate with them the process that they are talking with the regulator.

So the conclusion that we have now is, they have good feedback from the regulator about anti-trust. That's not something targeted to Alibaba. That actually is helping the industry to grow healthier.

TEM: I asked Mark and Gemma to share their thoughts on ESG.

MU: As a general point I would say it's one of the biggest changes, in the 15 or so years I've been working at LTGG, is the importance that we and our clients place on these factors. And I think it's important for two reasons. The first is, there's a much greater acknowledgement, probably since the financial crisis, of the role that the providers of capital have in the businesses they fund.

And so us, as middlemen between our clients and the companies, I think we do have responsibilities there. And those are the ones that we've reflected in the change to the 10Q a few years ago now, of inserting the question on, how do you contribute to society? So it's not enough for us just to find companies that are extremely profitable. We think they also have to be sustainable and responsible.

But I think the second, and probably the more interesting change, is that I think customers demand that. I think there is a generational shift that there is such visibility on the actions of companies. And that's been seen, exacerbated, and writ large in the last year, during pandemic behaviour.

The companies have been called out, quite rightly, where they have tried to price gouge, or they haven't acted responsibly. I think customers will vote with their pounds, and their dollars, and their yen, and their renminbi, in following those companies.

GB: So the way that we think about this, like Mark mentioned earlier, is with this question that we have built into our research framework, do you contribute to society?

And we appreciate that's a very qualitative approach that we're taking there, rather than a checklist that we're filling in. But we think that that's important because the nuance is really helpful in this area. Because I think if we were operating just off the back of a box-ticking approach, that could mean that we miss out on some opportunities, just because they don't fit into that neat checklist.

In a world where, so often, now, more and more strategies are approaching ESG as an area of importance, but they are outsourcing their thinking about ESG, we think actually having human judgement involved in that can be helpful.

TEM: In this final segment, Gemma talks about the size of the strategy, and its capacity.

GB: The capacity question, the size of the strategy, a couple of things to highlight is just the AUM figures mask a pattern in LTTG of considerable net outflows over the past few years. Since we've reopened in 2014 it's been £18 billion of outflows. So the growth in the AUM, crucially, has been down to performance.

And then secondly, that size of the strategy hasn't been an impediment to us in finding new ideas. With all of the new buys that we invested in over the past couple of years, the average market cap has been well over $20 billion. The smallest I think was the Peloton IPO, which was $8 billion. And that's a product of companies staying private for longer and listing at much higher valuations in the end.

TEM: Thanks for watching. Really hope to see you in person soon. And as a reminder, you can see this webinar and other content on the LTGG micro-site, which is located at LTGG.bailliegifford.com. Thank you very much.

Annual Discrete Performance to 30 June Each Year (%)

	2017	2018	2019	2020	2021
Long Term Global Growth Composite	38.8	35.4	3.9	61.0	44.6

Annualised returns to 30 June 2021 (%)

	1 Year	5 Years	10 Years
Long Term Global Growth Composite	44.6	35.4	23.5

Source: Baillie Gifford & Co. GBP.
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