

SHINING A LIGHT ON THE..... Scottish Mortgage

AT A GLANCE

| Investment Objective |
|--|
| Scottish Mortgage carries on business as an Investment Trust. The investment objective is to maximise total return from a portfolio of long-term investments chosen on a global basis enabling the Company to provide capital and dividend growth. The equity portfolio is relatively concentrated, and investments are chosen on their long-term merits rather than with reference to geographical asset allocation or the composition of an index. The Company aims to achieve greater return than the FTSE All World Index (in sterling terms) over a five-year rolling period. |

| | |
|----------------------------|---|
| Inception Date | 17 March 1909 |
| Fund Factsheet Link | https://tools.morningstar.co.uk/uk/cefreport/default.aspx?SecurityToken=E0GBR00R1S]2]0]FCGBR\$ALL |

| Management | |
|---------------------|-------------------|
| Manager Name | Start Date |
| James Anderson | 1 April 2000 |
| Tom Slater | 1 August 2009 |

| Investment Style Details | |
|------------------------------|--------------------|
| Equity Style | |
| Market Capitalisation | % of Equity |
| Giant | 54.93% |
| Large | 35.57% |
| Medium | 7.75% |
| Small | 1.36% |
| Micro | 0.39% |

| Top 10 Holdings | | |
|----------------------------------|------------------------|--------------------|
| Total number of holdings | 41 | |
| Assets in Top 10 Holdings | 52.84% | |
| Name | Sector | % of Assets |
| Amazon.com Inc | Consumer Cyclical | 9.28% |
| Tesla Inc | Consumer Cyclical | 8.63% |
| Tencent Holdings Ltd | Communication Services | 6.51% |
| Alibaba Group Holding Ltd ADR | Consumer Cyclical | 6.50% |
| Illumina Inc | Healthcare | 6.17% |
| ASML Holding NV | Technology | 3.79% |
| Kering SA | Consumer Cyclical | 3.12% |
| Netflix Inc | Communication Services | 3.07% |
| Delivery Hero SE | Communication Services | 3.03% |
| Ferrari NV | Consumer Cyclical | 2.74% |

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| Volatility Measurements | |
|----------------------------|--------|
| 3-Yr Std Dev (volatility) | 18.18% |
| 3-Yr Mean Return (average) | 23.17% |

FUND PERFORMANCE

Performance from 1st January 2014 to 31st May 2020:

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|
| Scottish Mortgage | 21.36% | 13.29% | 16.54% | 41.07% | 4.63% | 24.76% | 25.73% |
| MSCI World | 9.33% | 2.89% | 25.62% | 9.72% | -4.87% | 20.36% | -2.41% |

Performance over 12 months, 3 years, 5 years, and since fund manager inception (1 April 2000):

| | 1 year | 3 years | 5 years | Since fund manager inception |
|-------------------|--------|---------|---------|------------------------------|
| Scottish Mortgage | 45.48% | 86.87% | 177.89% | 926.91% |
| MSCI World | 7.01% | 17.32% | 49.00% | 93.56% |

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE....

These updates have been written at the time of the Coronavirus Pandemic in 2020, which has impacted the global financial markets in a way that has never been seen before.

Our comments remain that Baillie Gifford are an excellent investment house and this team is exceptional. However, they are not client friendly across the company and can be aloof. If investors are prepared to accept that then this is one of the very best global strategies in the market. They are very much about investing in companies of the future and holding onto them for the long term. This is a mix of listed companies, as well as unlisted.

The fund holds companies like Amazon, Tencent and Alibaba who all have strong positions and require very little capital to grow. They reflect the changing face of businesses. They have sold out of Baidu, and reduced weightings in Facebook and Alphabet.

They believe the market is diversifying with more competitors coming through who tend to complement rather than compete in the old fashioned way of thinking. As an example, Wayfair are responding to a changing environment in terms of furniture and is not an area Amazon really compete in. Zolando offer high street online which again is an area Amazon are not competing in. Shopify enables businesses to run a retail online business without using Amazon.

One of its biggest holdings is Tesla which is addressing new trends in battery automotive and energy transition. It sells every vehicle it makes with no advertising and has recently opened its factory in

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China. Tesla has improved its operational execution and the Model Y was launched earlier than expected. They believe there is still much to come from the business.

They discussed concentration risk and 80% of the holdings are in the top 15. They explained that they aim to find companies that will address big opportunities and therefore will dominate markets for years. They are long term investors and do not like to trim the winners. They are therefore happy to hold if the story holds. The only thing they do not do is add additional money to a company where the holding is above 8%.

Some of the smaller holdings they have are Liliium who are making the idea of flying cars a realistic possibility, Zip Line who do drone deliveries and Aurora Innovation which is a self-driving technology company. Also, Byte Dance have developed a media format which people can engage with and is worth \$70 billion without touching the listed market space.

It is important to back these companies because although some might fail, the impact on overall performance for these failures is small against those that win and become the dominate holdings in the future.

With some of the existing holdings they explained there remain many opportunities. Ferrari sells less than 10,000 units a year but is a premium brand which people aspire to. Wayfair has grown 100% and is opening to a new customer base on the back of COVID-19, and Amazon are expanding into food stores and online food retail. These are example where opportunities with existing holdings will just grow and grow.

In summary, this is about allowing the managers to find companies which will grow and take advantage of changing trends and themes. It has been very successful and they have a strong management team. The biggest risk to some of its holdings is legislation and whether this stifles growth, and also whether the growth trend with the holdings and the fund itself can continue.

The source of information in this note has been provided by Scottish Mortgage and is correct as at June 2020. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.