

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

**AT A GLANCE**

| Investment Objective   |
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| Investment is predominantly in equities. The number of equity holdings will typically range between 50 and 100 and the portfolio can be relatively concentrated. An unconstrained approach is adopted and there are no fixed limits set as to geographical, industry and sector exposure. The major part of the portfolio will be held in quoted equities with good liquidity. Investment may also be made in fixed interest securities, convertible securities, funds, unquoted entities and other assets based on the individual investment case. The maximum amount which may be invested in companies not listed on a public market shall not exceed 30 per cent of the total assets of the Company, measured at the time of purchase. The Company aims to achieve a greater return than the FTSE All-World Index (in sterling terms) over a five year rolling period or longer. |

|                            |   |
|----------------------------|---|
| <b>Inception Date</b>      | 1 <sup>st</sup> January 1909  |
| <b>Fund Factsheet Link</b> | <a href="https://tools.morningstar.co.uk/uk/cefreport/default.aspx?SecurityToken=E0GBR00R1S%5d2%5d0%5dFCGBR\$\$\$ALL">https://tools.morningstar.co.uk/uk/cefreport/default.aspx?SecurityToken=E0GBR00R1S%5d2%5d0%5dFCGBR\$\$\$ALL</a> |

| Management          |                             |
|---------------------|-----------------------------|
| <b>Manager Name</b> | <b>Start Date</b>           |
| Tom Slater          | 1 <sup>st</sup> August 2009 |
| Lawrence Burns      | 19 <sup>th</sup> March 2021 |

**FUND PERFORMANCE**

Performance from 1<sup>st</sup> January 2016 to 31<sup>st</sup> May 2022:

|                                | 2016   | 2017   | 2018   | 2019   | 2020    | 2021   | 2022    |
|--------------------------------|--------|--------|--------|--------|---------|--------|---------|
| <b>Scottish Mortgage</b>       | 16.54% | 41.07% | 4.63%  | 24.76% | 110.49% | 10.46% | -39.69% |
| <b>MSCI ACWI Growth NR USD</b> | 23.18% | 18.75% | -2.42% | 27.60% | 29.47%  | 18.18% | -15.53% |

Performance over 12 months, 3 years, 5 years, and 10 years:

|                                | 1 year  | 3 years | 5 years | 10 years |
|--------------------------------|---------|---------|---------|----------|
| <b>Scottish Mortgage</b>       | -32.32% | 62.24%  | 108.40% | 585.59%  |
| <b>MSCI ACWI Growth NR USD</b> | -2.13%  | 45.33%  | 72.63%  | 268.55%  |

*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.*

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| Tracking Error | Active Share | Upside Capture Ratio | Downside Capture Ratio | Batting Average | Beta | Alpha | Equity Style |
|----------------|--------------|----------------------|------------------------|-----------------|------|-------|--------------|
| -              | -            | -                    | -                      | -               | -    | -     | Growth/Large |

| Volatility Measurements    |        |
|----------------------------|--------|
| 3-Yr Std Dev (volatility)  | 27.96% |
| 3-Yr Mean Return (average) | 17.50% |

| Investment Style Details |        |
|--------------------------|--------|
| Giant                    | 49.74% |
| Large                    | 29.71% |
| Medium                   | 12.07% |
| Small                    | 7.28%  |
| Micro                    | 1.20%  |

| Top 5 Holdings – 66 Equity Holdings |                        |       |
|-------------------------------------|------------------------|-------|
| Moderna Inc                         | Healthcare             | 6.51% |
| ASML Holding NV                     | Technology             | 6.38% |
| Illumina Inc                        | Healthcare             | 6.34% |
| Tesla Inc                           | Consumer Cyclical      | 6.24% |
| Tencent Holdings Ltd                | Communication Services | 4.94% |

| Top 5 Sectors          |        |
|------------------------|--------|
| Consumer Cyclical      | 28.00% |
| Healthcare             | 17.10% |
| Technology             | 14.70% |
| Communication Services | 7.20%  |
| Financial Services     | 1.10%  |

| Top 5 Regions |        |
|---------------|--------|
| United States | 34.90% |
| China         | 13.90% |
| Netherlands   | 7.70%  |
| Germany       | 3.80%  |
| France        | 2.40%  |

## UPDATE....

I have struggled with Baillie Gifford. They appear to have a single belief that you buy into, or you don't! We have held this strategy for over ten years and it has performed strongly during this period, although this has dropped back recently.

My belief is that a change in management (James Anderson retiring), and a difficult period has perhaps shown a softer side to the team and what they are looking to achieve.

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They acknowledge this has been a difficult time for the trust and they want to go out and talk to shareholders. They want to provide reassurance in what they are doing. To place this in context, the trust has been running for over 100 years and this is its 6<sup>th</sup> worst period.

Ironically, the pandemic really was the undoing for the trust. This was never designed for a pandemic and many of the holdings they have or had re-rated very quickly during the pandemic, delivering exceptional returns. Most of those returns have now been given back.

They are long term investors with all the top-ten being held for over 9 years. The only exception is Moderna which has been held for just over 5 years. They want to find companies that drive the economy of the future.

The journey from “A to B” will be volatile. Holding Tesla and Amazon for over ten years has seen those stocks go up and down. They feel that some investors don’t understand this about the types of stocks they hold and perhaps the sell-off will deter this short-term thinking in the market around these types of stocks.

They talked about Moderna. This is down over 35% this year and yet up over 600% since it was listed. They use pioneering mRNA technology which was transformational during COVID. The market seems to think it is just about COVID. It doesn’t understand what comes next. The reality is that they are working on a single flu and COVID vaccine and have 44 other drugs in development. The technology is here to stay and yet the market cannot understand this. It wants to see evidence.

We also discussed China. They have reduced their weighting slightly but still hold the likes of Alibaba and Tencent. They understand the regulations and how they make sense – education, gig economy and anti-trust rules. The challenge is the speed with which change was made. There are concerns that the US will impose more sanctions but they explained this is a difficult balance especially as without China Apple has no iPhone!

The reality is that China still offers opportunities but they expect growth to be lower and investors need to be aware of the potential risks. They have dropped the weighting to around 16% and used the money to invest in other stocks.

Interconnected with Moderna, the question that they asked was whether what we have developed now and are developing in the future will go back to where it was before? The simple answer is no. Moderna are revolutionising the development of drugs so why would we go backwards? Will there be more fossil fuel use in a decade? Once we have gone forward it is unlikely, we will go back.

One area of concern we have is around profitability. Around 57% of the trust is in profitable companies, 30% in private companies and 16% have negative earnings. We talked about some of the unprofitable companies, like Delivery Hero, where revenues are up and the share price is down 75%. Much of this was driven by the South Korean market and a new competitor. The market assumed this would damage Delivery Hero but the reverse has been true.

They have some nascent technologies like Joby Aviation who are looking to electrify aviation and they have cash to invest and expect to have something in the next couple of years.

Another example they used was Snowflake who are a cloud-based company. This is back to the argument, do we go back or go forward? Is it likely companies will want onsite storage and the answer is likely no.

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For investors it is important to understand that this is a blend. They have stocks that are profitable and they have held for many years. Some of these like Amazon they have started to reduce and use the capital in other investments. They invest in private companies like Stripe (payment processing software), and this is a rich source of future investment opportunities. As these companies list then they have the option to add to their holdings. They do have unprofitable companies but this is carefully managed.

In summary, the market focuses on “what is”, the strategy considers “what if”. If the market believes in what if then this fund will do well. At the moment there is so much negative sentiment that the market cannot see the future. The danger is not in the companies which drive the future but companies which are stuck in the past with heavy debt. As rates go up and the cost of borrowing goes up, what happens to these companies?

From our perspective I think we feel much more comfortable with the change in management who have been part of the team for many years. James Anderson was a larger than life character and so allowing others to shine has been positive. The willingness to come out and talk is really important. This strategy will be volatile but its diversity across different drivers of the future makes it a really interesting long-term investment. This will not be for every investor and they do need to understand how the strategy works, we would also suggest blending with another global strategy that perhaps provides a more steady return profile.

*The source of information in this note has been provided by Baillie Gifford and is correct as of June 2022. 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.*