



## Baillie Gifford UK Growth Trust

Investment companies | Annual overview | 7 August 2024

### Light at the end of the tunnel

As we discuss in the performance section on pages 14 to 23, Baillie Gifford UK Growth Trust (BGUK) has had a challenging three years, but with interest rates falling, this heavily growth-focused trust could be set for a significant period of outperformance (an environment of higher interest rates tends to be negative for most equities but particularly growth investments which tend to have a higher proportion of their value discounted back from some point in the future – a reversal of this could drive a rerating of growth stocks). This could trigger a substantial narrowing of its discount to net asset value (NAV), which is currently at levels seen during the depths of the COVID market collapse and seems nonsensical (see Figure 34 on page 29).

The scale of the opportunity and the board's conviction in the managers to deliver on this is such that, if shareholders approve continuation at this year's annual general meeting (AGM), the board is proposing that if performance does not turn around, it will offer shareholders an opportunity to realise their investment in full at a price close to NAV in 2029. In addition, they are saying that they will hold an extra continuation vote in 2027 (see page 32 for more details).

### Focused portfolio of UK growth equities

BGUK aims to achieve capital growth by investing in a concentrated portfolio (35–65 companies) of predominantly UK equities, with the aim of providing a total return in excess of the FTSE All-Share Index.

Sector	UK all companies
Ticker	BGUK LN
Base currency	GBP
Price	167.00p
NAV	197.46p
Premium/(discount)	(15.4%)
Yield <sup>1</sup>	3.4%

Note: 1) Dividend yield is based on BGUK's dividend of 5.6p per share for the 2024 financial year, which goes ex-dividend on 15 August 2024.



We've seen a perfect storm for growth investing but there's potential for strong outperformance as interest rates retreat.



BGUK's small mid-cap bias has also weighed on performance but now provides an additional opportunity to outperform.



Extra redemption opportunity in 2027 and opportunity for full realisation in 2029 if performance does not turn around.





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<b>Domicile</b>	<b>England &amp; Wales</b>
<b>Inception date</b>	<b>8 July 2005</b>
<b>Manager</b>	<b>Iain McCombie and Milena Mileva</b>
<b>Market cap</b>	<b>242.0m</b>
<b>Shares outstanding (exc. treasury shares)</b>	<b>144.9m</b>
<b>Daily vol. (1-yr. avg.)</b>	<b>252.7k shares</b>
<b>Net gearing</b>	<b>4.5%</b>

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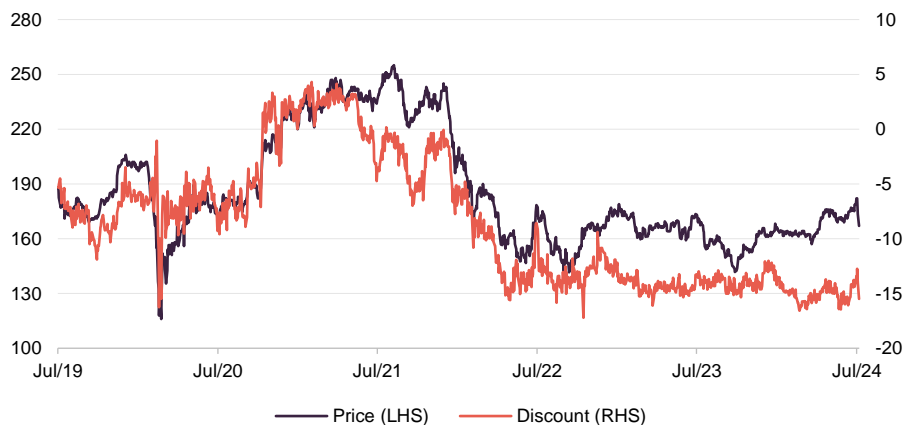


## At a glance

### Share price and discount

With BGUK trading at discount levels close to its five-year high and comparable to the widest level seen during the COVID-related market rout of March 2020, the trust looks significantly oversold, particularly once proposals for shareholders to realise their investment in full at close to NAV in 2029 and the additional continuation vote in 2027 are factored in. BGUK offers significant reversion potential as appetite for growth stocks returns, with falling interest rates likely to be key.

### Time period 31 July 2019 to 5 August 2024

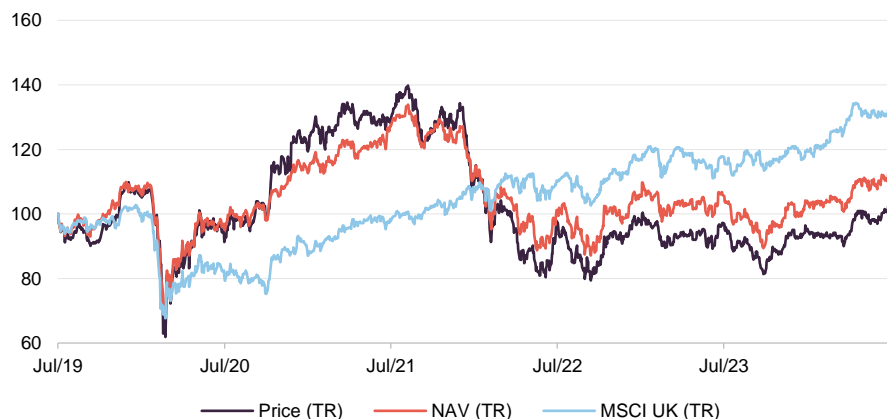


Source: Morningstar, Marten & Co

### Performance over five years

BGUK has struggled during the last three years against a backdrop of higher interest rates that have seen growth stocks heavily out of favour. However, as we explore on pages 19 to 23, this would have been difficult to avoid without a significant change in approach. While this will not reverse immediately, interest rates appear to be on a path of retrenchment giving growth a very strong opportunity to outperform.

### Time period 31 July 2019 to 31 July 2024



Source: Morningstar, Marten & Co

Year ended	Share price total return (%)	NAV total return (%)	MSCI UK total return (%)	MSCI UK Growth total return (%)	MSCI World total return (%)
31/07/20	(7.5)	(5.0)	(20.7)	(5.0)	0.6
31/07/21	39.8	33.8	23.4	18.7	28.1
31/07/22	(24.4)	(20.4)	12.8	5.2	4.3
31/07/23	(0.7)	4.4	6.8	5.6	7.9
31/07/24	7.5	8.1	13.5	7.8	19.1

Source: Morningstar, Marten & Co

## Fund profile

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### Focused UK growth equities portfolio

Further information can be found at Baillie Gifford's website:

[www.bailliegifford.com](http://www.bailliegifford.com)

BGUK aims to achieve capital growth predominantly by investing in a portfolio of UK equities, with the aim of providing a total return in excess of the FTSE All-Share Index. The company invests in a relatively concentrated portfolio of between 35 and 65 companies, the majority of which are constituents of the FTSE 350 Index, but where appropriate, it may also include constituents of other indices.

Baillie Gifford took over the management of BGUK's portfolio at the end of June 2018 and has been managing it for just over six years now. The managers take a stock-picking (or **bottom up**) approach, and the size of individual stock holdings depends on the managers' degree of conviction on the investment case, not the stock's weight in any index. BGUK may, if appropriate, use **convertible securities**, and equity-related **derivatives** for efficient portfolio management purposes. BGUK may also invest up to 10% of its total assets in unlisted investment opportunities (measured at the time of initial investment).

### About the managers

Well-resourced investment team.

Baillie Gifford has 175 investors/analysts, spread across 23 teams, most of whom are based in its Edinburgh office. It is structured as a partnership and encourages a collegiate approach to managing money, although it allows its portfolio managers the freedom to have the final say about their portfolios. It managed or advised on about £224.4bn at the end of June 2024, of which £10.7bn was invested in UK equities. BGUK is co-managed by Iain McCombie and Milena Mileva (see page 33 for brief biographies of the managers).

### Constructed without reference to a benchmark

BGUK's benchmark is the FTSE All-Share Index, although the portfolio is not constructed with reference to this or any other benchmark index. We have substituted the MSCI UK Index for the All-Share in this report and have also included comparisons against the MSCI UK Growth Index and the MSCI World Index.

## Managers' view

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### Light at the end of the tunnel for growth investors

Interest rate cuts are finally here.

In our previous notes, we have discussed how rising interest rates, designed to choke off rising inflation, have impacted the ratings and outlook for growth stocks in the UK. As we explore in an extended performance section on pages 14 to 23, BGUK has struggled for the last three years. However, our analysis suggests that this could only have been avoided if the managers had made a significant change to their investment style. Now, following a period that has been described as a perfect storm for growth, the Bank of England has made the first cut in interest rates for four years, with light at the end of the tunnel for growth investors.

Despite the headwind of higher interest rates weighing on the share prices of the sorts of growth stocks that BGUK is invested in, BGUK's managers observe that

A bias to mid and smaller companies has been unhelpful.

Market still not discriminating between good and bad companies.

their holdings continue to perform well in aggregate, making the recovery potential even greater as this headwind eventually turns into a tailwind.

BGUK's relative bias towards mid- to smaller companies has continued to be a headwind as these have generally been more affected although, as we explore in the asset allocation section, the managers have increased exposure to this segment at the margin, which reflects the strength of the opportunities on offer.

As we reiterate in the peer group section from page 23 onwards, BGUK, with the strongest growth focus within its peer group, has arguably faced the strongest headwinds.

The extended analysis in the performance section also shows that the broader UK market has benefitted from its significant exposure to banks and oil stocks, which have generally performed well. These are areas where BGUK's relative performance has suffered because it is naturally underweight (these areas are not suited to its investment strategy). The managers' analysis suggests that, while such areas have done well recently, they do not expect these businesses will be able to grow their earnings above the market average over the longer term.

The managers continue to have confidence in the trust's portfolio. They feel that the market is still not distinguishing between good and bad companies, but note that this throws up opportunities for longer-term patient investors.

## Managers' long-running themes remain intact

As we have discussed previously, BGUK's managers are looking for companies that have a number of key attributes (see pages 6 and 7). Given their **bottom-up** approach, they do not set out to have exposure to a particular theme, however when looking across the portfolio it is possible to group holdings into broad themes the managers are excited about. The key themes are detailed below and regular readers of our research on BGUK may observe that these broad 'buckets' haven't changed. In line with the managers' long-term approach, neither have many of the holdings – we have indicated below where the portfolio has changed since a year ago.

Key portfolio areas are as follows (figures as at 30 April 2024):

- Growth financials (26.5%) – Hargreaves Lansdown, Legal & General, AJ Bell, Hiscox, St James's Place, Helical, Wise, Prudential, IG Group, Lancashire Holdings, Just Group and IntegraFin.
- Market share gainers (22.9%) – Ashtead, Bunzl, 4imprint, Inchcape, Volution Group and Howden Joinery.
- Big brands (9.1%) – Games Workshop, Diageo and Burberry.
- Research and development-driven (R&D) innovators (7.6%) – Genus, Wayve, Oxford Nanopore, Exscientia, Creo Medical and Renishaw (Abcam was taken over).
- The digital enterprise (9.5%) – Kainos, FDM, Softcat, Molten Ventures and FD Technologies.
- The digital consumer (8.1%) – Rightmove, Moonpig and Auto Trader (as discussed on page 12, Moonpig is a new holding, while Boohoo.com, Farfetch and Naked Wines have all been exited in their entirety)
- Niche industrials (6.7%) – Victrex, Bodycote, Halma, and PageGroup.

- Data, data everywhere (6.9%) – RELX and Experian.
- Commodities (2.1%) – Rio Tinto.

## Investment philosophy and process

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### The underlying approach

Markets are inefficient at pricing long-term growth

Baillie Gifford believes that markets are inefficient at pricing long-term growth, especially over a time horizon of at least five years, and that this creates an opportunity to generate **alpha**. For this reason, it aims to encourage a culture of long-term thinking within the firm. Baillie Gifford believes that there is persistence of good company management, business models and stock prices. This translates into a culture of ‘sticking with the winners’.

### Three-stage team-based approach

As an investment house, Baillie Gifford has a strong emphasis on using a team-based approach, as it believes that teams make better decisions than individuals. Integral to this is a culture of debate, with a challenge-driven mentality across the firm. Baillie Gifford could be considered as effectively being made up of a small number of investment teams with different growth strategies. The UK equities team uses a consistent three-stage approach that comprises:

- discovery;
- debate; and
- decision.

There are two lead portfolio managers on the team: Iain McCombie (the head of the team) and Milena Mileva (BGUK’s co-managers – see page 33 for their biographies). The team also has a permanent investment analyst as well as a number of graduates from the company’s graduate programme (these rotate every 12 months). In addition, the team has two dedicated environmental, social and governance (ESG) analysts who are embedded within the UK team’s investment framework.

### Stage 1 – Discovery

This is the idea-generation part of the process. Every six weeks the team has their prospects meeting, which sets the research agenda for the following six weeks (the UK stock universe is 500+ stocks and the team has a priority list of around 200 companies). Baillie Gifford holds the view that it is important for both portfolio managers and analysts to carve out time to do their own research. This is part of their objectives and helps to keep them accountable for their investment decisions (as discussed below, while there is considerable debate around stocks, the lead portfolio managers make the final decision).

For the prospect meeting, team members bring along ‘half-formed’ ideas to discuss (an analyst or portfolio manager may have seen something that has caught their eye and open it up to the wider group). The discussion is open-minded and constructive. Baillie Gifford does not believe in coverage for the sake of having coverage. For example, even if a stock is large, the team will not cover it unless it has a credible long-term growth investment case. That is not to say that the team

does not keep an eye on the broader market; they will look at such stocks when looking at the competitive landscape, for example. These discussions are the starting point for more in-depth research.

In the discovery stage, the team can draw on external research providers and other in-house teams, but Baillie Gifford tries to encourage analysts to hunt for new ideas. They are encouraged to follow their enthusiasms and look at things they are drawn to and are excited about. This frees up the analysts, who are all generalists, allowing them to get a broader perspective. It is noteworthy that the analysts are not divided along sector lines and there is no concept of 'maintenance research' at Baillie Gifford. When the team is talking to companies, the conversations with their management teams focus on the long-term prospects of the business.

Iain and Milena are able to draw on the resources of the whole investment team when analysing companies, and can sit in on meetings with companies outside their geographic remit. This is especially beneficial when trying to identify how companies compare with competitors domiciled in other markets.

## Stage 2 – Debate

The debate stage is the most important stage of the investment process. It is structured around a concise investment note which, for the UK equities team, is limited to a maximum of three pages, to keep the arguments focused with a clear recommendation at the end (there is, however, no limit on the number of supporting pages that can be attached to the back of the note). Notes are structured around Baillie Gifford's five-question framework:

- **Edge – why is a stock interesting?** This focuses on the industry background, company-specific factors, competitive position, and key issues pertinent to the investment case.
- **Growth – what will it look like in five years?** This focuses on sales, profit margins and the capital allocation.
- **Sustainability – what are the governance and sustainability considerations not considered elsewhere in the report?** This focuses on management alignment, board structures and sustainable business practices.
- **Valuation – should we own it?** This focuses on the company's valuation, the reasons why a company should trade well, and the likely valuation in five years and beyond.
- **Discipline – what would make us sell?** This focuses on the key risks and any non-negotiables of the investment case.

In addition, another member of the team will be appointed to play the role of devil's advocate ahead of the discussion. The purpose of this is to uncover assumptions and challenge these so that ultimately a superior recommendation can be reached. One member of the team takes detailed minutes of these discussions, which provide a base line for the team for future discussions. Specifically, these minutes record the risks identified around a stock as well as the reasons for selling. This is important, as it acts as a barrier to analysts and portfolio managers from shifting the goalposts on stocks over time, forcing them to retain their objectivity.



## Stage 3 – Decision

In terms of portfolio construction, whilst the team actively discusses all of the stocks, the final decision as to what stocks enter the portfolio is down to the lead manager or managers of the respective portfolios. This is designed to give individual accountability on top of the team discussion.

## Sell discipline

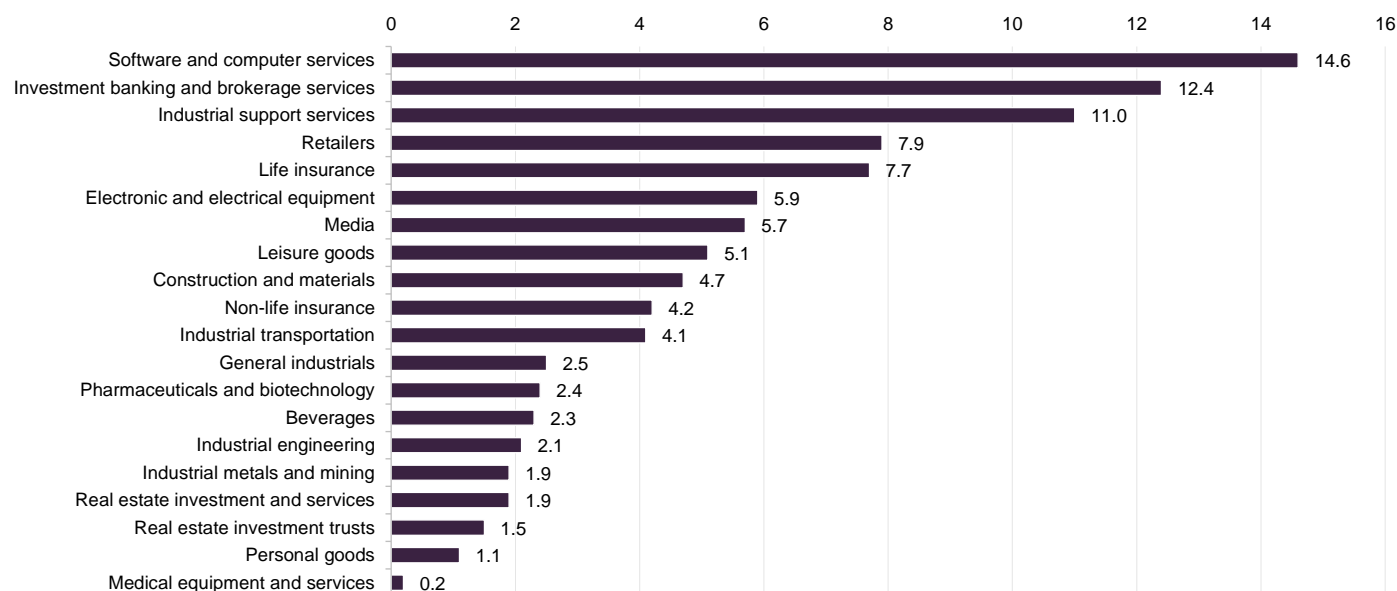
In terms of sales, loss of faith in a company’s management is an instant trigger for a sale. The managers also sell if they feel that a business model is not working, or if the market has caught up with their expectations for a company.

## Asset allocation

### Small-mid-cap biased growth portfolio

As at 30 June 2024, BGUK’s portfolio had 41 holdings, a decrease of four over 45 holdings as at 31 July 2023 (the most recently available information when we last published). As illustrated in Figure 5, the portfolio continues to be reasonably concentrated with the top 10 stocks accounting for 42.9% of BGUK’s total assets as at 30 June 2024, a noticeable increase of 4.0 percentage points since we last published.

**Figure 1: Industry allocation as at 30 June 2024**



Source: Baillie Gifford UK Growth

Portfolio is radically different to the benchmark.

Figure 1 provides a breakdown of the portfolio by industry as at the end of June 2024. This illustrates the diverse nature of the investment ideas within the portfolio, which has been a feature since Baillie Gifford took over management in 2018. We would remind readers that while this provides a useful illustration, the allocations are a result of the managers’ stock selection decisions and will change based on these, rather than big macroeconomic views. Similar charts have been included in our previous notes and comparisons against these show that, while the portfolio is



inherently long term and low turnover, these allocations change gradually over time. We would also remind readers that, while this is a UK all-cap portfolio, there are large chunks of the market to which BGUK offers no exposure, as should be expected of a concentrated growth portfolio that is not constructed with any regard to the benchmark.

Unsurprisingly, given the managers' focus on maintaining a focused portfolio of individual growth ideas, the **active share** tends to be high (it was around 87% at the end of June 2024, which is in line with its long-term average).

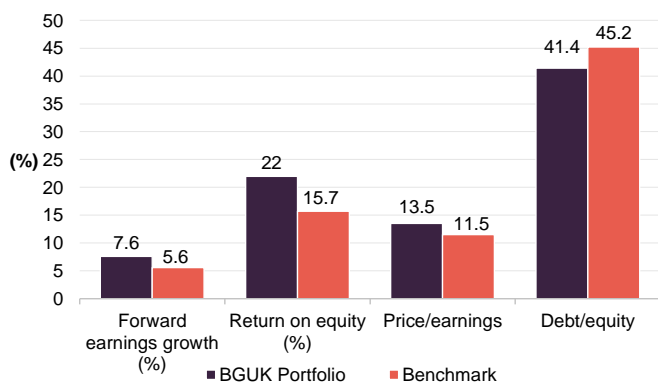
## Portfolio characteristics

As illustrated in Figures 2 and 3, BGUK has a markedly different portfolio to the benchmark.

As Figure 2 shows, BGUK's portfolio trades at a noticeable valuation premium to the benchmark, it has superior expected earnings growth, a far superior return on equity and appreciably lower debt levels. In addition, as illustrated in Figure 3, BGUK's portfolio continues to have a strong bias to mid-cap and small-cap stocks when compared to the benchmark and this bias has increased at the margin since we last published.

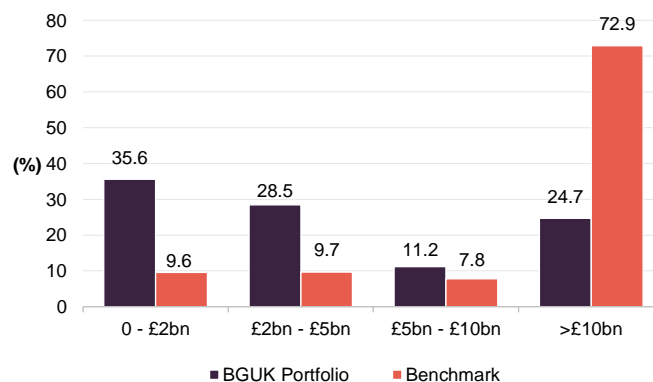
The small-mid-cap bias is not something that its managers set out to achieve, but is a result of their stock selections and, moreover, reflects where they have been able to find the best opportunities. It also reflects why the allocations to these sectors has expanded during the last year. Details of these characteristics were also included in our September 2023 note, and comparison of Figures 2 and 3 with their earlier versions shows that both the valuation differentials and market cap characteristics are comparable to a year prior.

**Figure 2: BGUK portfolio valuations versus benchmark as at 30 April 2024**



**Source:** Baillie Gifford, Marten & Co. Note Historic earnings growth is trailing five years. Return on equity and Price/earnings is based on 12-month forward estimates. Debt/equity excludes financials.

**Figure 3: BGUK portfolio market cap split versus benchmark as at 30 April 2024**



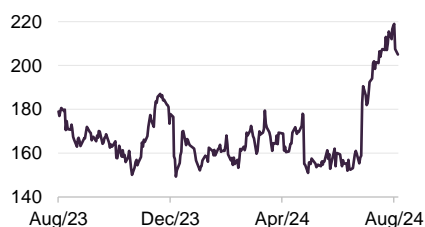
**Source:** Baillie Gifford, Marten & Co

## New additions and exits

Reflecting the managers' low-turnover approach, the number of stocks entering and exiting the portfolio in a given year is likely to be limited. For example, during the year ended 30 April 2024, just one new position was added – Moonpig (down from five additions for the previous year) – while four positions were exited in their entirety: Abcam (to a takeover – see page 16), Boohoo.com, Farfetch and Naked Wines, the position in Victrex was sold shortly following the year end. There were just 10 significant increases and two significant reductions.

### Moonpig – benefitting from a permanent shift towards online

**Figure 4: Moonpig share price (GBp)**



Source: Bloomberg

Moonpig Group ([www.moonpig.group](http://www.moonpig.group)) is an online retailer of greetings cards and gifts with a dominant position in the growing online market for greetings cards. BGUK's managers met the Moonpig team when the company had its **initial public offering (IPO)** in February 2021, but they felt that it was not the optimal time for a listing. At the time, they were concerned that the asking price was a bit high, particularly given that Moonpig had been a major COVID beneficiary, and it was not clear to what extent that benefit would reverse. A year later in the first quarter (Q1) of 2022, growth stocks derated as interest rates started to shift up, Moonpig included.

BGUK's managers continued to follow the company – Milena spoke to its management again in Autumn 2022 and visited their distribution facility in 2023. She concluded that, while new customer growth had slowed, she had increased confidence in the company's ability to drive sales growth, on the back of the significant investment it has made in data science. However, the key questions for BGUK's managers were: what would online penetration be for greetings cards post-COVID? Would Moonpig's dominant position prove defensible? And what could this look like in 10 years' time?

The business had a 60% market share prior to COVID, and this has increased to 70%. Moonpig was both able to grow its market share during the pandemic era and retain it. Crucially, there has been a permanent shift in the way people buy greeting cards, with more people opting for the convenience that Moonpig offers. While online has grown, it stills only accounts for 15% of the greetings card market, giving Moonpig a very long growth runway.

Moonpig's customers make very regular and very specific purchases, which is highly suited to machine learning and exploitation using data science. Moonpig provides in the region of 80m calendar reminders, and this has enabled it to increase the frequency of purchases. BGUK's managers see the potential for it to leverage its increasing scale to drive up purchase frequency and average order value. They also think this gives it a strong defensive moat.

In May 2022, Moonpig purchased Smartbox, the gift experience platform behind Buyagift and Red Letter Days, from a French private equity investor. BGUK's managers say that this operation requires investment, but it has allowed Moonpig to add an 'experience level' to its offering. The managers say that there are still questions around the quality of the asset, but Moonpig has historically been good at making customer acquisition investments. They add that Moonpig's core business is very profitable, capex-light and high margin, which makes it easier to

Moonpig's business is highly suited to using data science

Moonpig's core business is very profitable, capex light and high margin.

explore other avenues. They acknowledge that there are concerns surrounding the direction of consumer confidence and that Moonpig's offering is discretionary spending, so can exhibit some cyclicity. However, the company's debt levels look sensible, and the company should be resilient in a down cycle.

## Top 10 holdings

**Figure 5: Top 10 holdings as at 30 June 2024**

Holding	Sector	Business	Portfolio weight 30 June 2024 (%)	Portfolio weight 31 July 2023 (%)	Percentage point change
<b>Auto Trader</b>	<b>Technology</b>	<b>UK second hand car advertising portal</b>	<b>5.6</b>	<b>4.4</b>	<b>1.2</b>
<b>Experian</b>	<b>Technology</b>	<b>Financial information services</b>	<b>5.4</b>	<b>3.9</b>	<b>1.5</b>
<b>Games Workshop</b>	<b>Consumer discretionary</b>	<b>Table top games manufacturer/retailer</b>	<b>5.1</b>	<b>5.5</b>	<b>(0.4)</b>
<b>Volution Group</b>	<b>Industrials</b>	<b>Ventilation equipment supplier</b>	<b>4.7</b>	<b>4.1</b>	<b>0.6</b>
<b>Ashtead</b>	<b>Industrials</b>	<b>Construction equipment rental</b>	<b>4.1</b>	<b>4.4</b>	<b>(0.3)</b>
<b>Howden Joinery</b>	<b>Industrials</b>	<b>Manufacturer/distributor of kitchens to trade</b>	<b>4.1</b>	<b>3.4</b>	<b>0.7</b>
<b>Softcat</b>	<b>Technology</b>	<b>IT reseller and infrastructure solutions</b>	<b>3.6</b>	<b>2.9</b>	<b>0.7</b>
<b>AJ Bell</b>	<b>Financials</b>	<b>UK wealth manager</b>	<b>3.6</b>	<b>2.3</b>	<b>1.3</b>
<b>4imprint</b>	<b>Communications</b>	<b>Promotional merchandise</b>	<b>3.6</b>	<b>2.5</b>	<b>1.1</b>
<b>Kainos</b>	<b>Technology</b>	<b>IT services</b>	<b>3.1</b>	<b>2.6</b>	<b>0.5</b>
<b>Total of top five</b>			<b>24.9</b>	<b>22.3</b>	<b>2.6</b>
<b>Total of top 10</b>			<b>42.9</b>	<b>38.9</b>	<b>4.0</b>

Source: Baillie Gifford UK Growth, Marten & Co

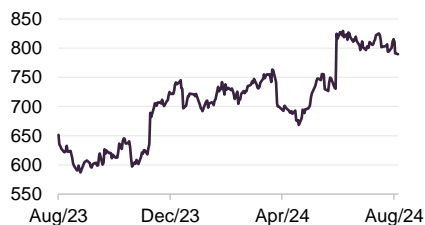
4imprint, AJ Bell, Softcat and Kainos have moved up into the top 10.

Figure 5 shows BGUK's top 10 holdings as at 30 June 2024 and how these have changed since 31 July 2023 (the most recently available data when we last published). Reflecting the managers' long-term, low-turnover approach, most of the top 10 portfolio holdings will be familiar to regular followers of BGUK's portfolio announcements and our research on the trust.

New entrants to the top 10 are 4imprint, AJ Bell, Softcat and Kainos. Names that have moved out of the top 10 are Abcam, Wise, St. James's Place and Diageo.

We discuss some of the more interesting developments in the next few pages. Other holdings have been discussed in our previous notes and readers may wish to refer to these (for example, Games Workshop and Softcat were covered in detail in our September 2023 note – see page 35 of this note).

**Figure 6: Auto Trader share price (GBp)**



Source: Bloomberg

## Auto Trader (5.6%) – growing transactional platform

Auto Trader ([www.autotrader.co.uk](http://www.autotrader.co.uk)) is the leading classified advertising portal for used cars in the UK. Baillie Gifford has held Auto Trader in its portfolios since the company's IPO in 2016 but added to the position in 2022 when the share price was depressed due to a deteriorating economic outlook. It has benefitted more recently as the economy has been turning around.

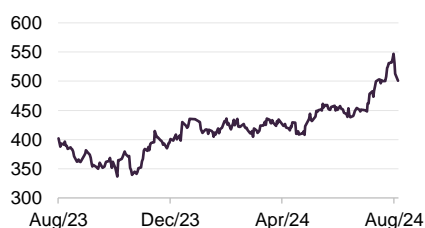
BGUK's managers cite Auto Trader as an example of a holding that is working successfully to increase its already-substantial market share and embed itself ever more deeply into its customers' businesses. They say that, through its large audience of buyers and the continuous development of what is an unparalleled data set, Auto Trader is becoming increasingly rooted in the workflows of retailers and that is evolving from a classified advertising platform to a transactional one.

Buyers are now able to complete the purchase of second-hand vehicles through Auto Trader's deal-builder platform, allowing it to present a dealer with a completed transaction. The platform, which has access to some 40,000 vehicles, provides buyers with a superior buying experience and helps retailers to become more efficient. BGUK's managers say that the conversion rate is quite good and that, while it is still early days, they are starting to monetise this product. It is a volume game – Auto Trader is taking a small cut on a large number of transactions – but it allows dealers to price more efficiently (by opening up the audience they can get a better sense of what stock is not moving and why). Auto Trader is also opening the platform up to new cars as well, which is shifting the balance of power between the car manufacturers and dealers as the manufacturer can sell directly on the platform as well.

BGUK's managers say that around 30x more people go to the Auto Trader website than to traditional car dealers because they can do this casually and Auto Trader is viewed as a trusted source. The company has a high operating margin (EBIT/net sales) of 70-80%, and BGUK's managers think that the business will be able to accelerate its rate of growth, noting that it is a subscription-based model so is not directly exposed to prices. The managers think that Auto Trader's competitive advantages are deeper than they ever have been and that the benefit of their continued investment in the business during more challenging times will continue to unfold over the next few years.

## Volution (4.7%) – benefiting from environmental regulations

**Figure 7: Volution share price (GBp)**



Source: Bloomberg

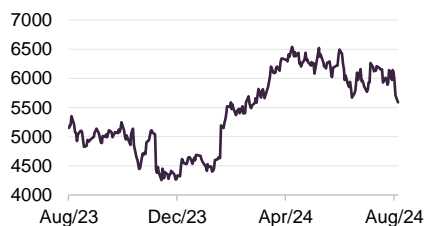
Volution Group ([www.volutiongroupplc.com](http://www.volutiongroupplc.com)) is a manufacturer and supplier of ventilation products from simple extractor fans to more complex heat recovery solutions. Its primary markets are the UK, Continental Europe and Australasia, where it operates through 17 different brands split across these different regions (for example, Vent-Axia, Voltair and Ventair), supplying products to both residential and commercial construction markets.

BGUK's managers see a long-term structural trend of efforts to improve air quality, with demand for Volution's products benefiting from environmental regulations in building and construction, adding that the company is well positioned as it has consistently reinvested in its business to drive innovation. An example of this is its heat recovery ventilation solutions that are already helping customers to meet new

energy efficiency building standards. The managers believe this tailwind could drive organic growth for years to come.

### 4imprint (3.6%) – benefitting from scale and marketing efficiencies

**Figure 8: 4imprint share price (GBP)**



Source: Bloomberg

As we discussed in our September 2023 note, 4imprint ([4imprint.com](http://4imprint.com)), the direct marketer of promotional merchandise for corporates, really exceeded expectations and was rewarded with a strong share price performance. The company, which describes itself as the world's leading distributor of promotional gifts (it has operations in the US, UK, and Europe, although the bulk of its sales are in the US), operates in a large and highly fragmented market and has consistently taken market share from smaller competitors.

The company has differentiated itself by being very good at marketing its own offering, and its management team have transformed the efficiency of their marketing spend (which is one of the big costs of operating in this segment, along with personnel costs). BGUK's managers believe that the company's scale will become an increasing competitive advantage which, combined with strong financial characteristics, makes it a compelling investment.

### AJ Bell (3.6%) – low-cost proposition

**Figure 9: AJ Bell share price (GBP)**



Source: Bloomberg

AJ Bell ([www.ajbell.co.uk](http://www.ajbell.co.uk)) provides a share dealing platform and related financial services and products to investors, serving both business-to-business (B2B) and direct-to-consumer (D2C) segments in the UK. It has positioned itself as a low-cost provider and has been growing its market share at a time when some of its peers have struggled to remain competitive.

BGUK's managers say that share dealing platforms (they also own Hargreaves Lansdown and IntegraFin) are well positioned to benefit from the long-term trend towards self-directed investment. However, AJ Bell stands out for having a very good management team; the strength of its educational materials and its significant investment in technology (which is helping to keep costs down and make its offering user friendly). The managers see further growth opportunities ahead, particularly for its retail offering, but also expect it will continue to build on its strong position in the IFA (independent financial adviser) Market. AJ Bell's share price surged in May and July on the back of announcements in relation to the bid for Hargreaves Lansdown. The consortium that is making that bid now has until 9 August to make a firm offer.

The managers note that all of the platforms face a regulatory issue with regards to interest income (the same applies to the banks) but think that AJ Bell is quite well positioned with respect to that. They say that all are facing some cyclical issues (flows were weaker across the board last year due to cost of living), but AJ Bell has the strongest flows and is winning in a tough market.

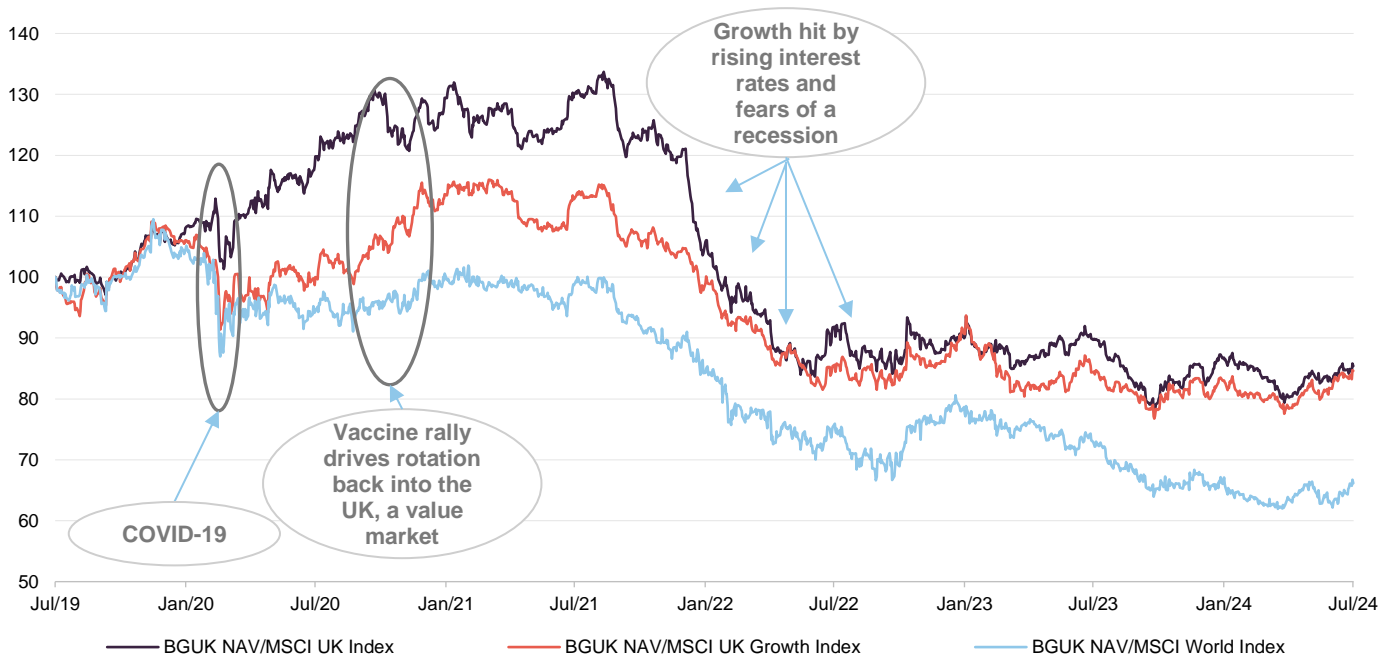
## Performance

Up-to-date information on BGUK and its peers is available on the [QuotedData](#) website.

As we commented a year ago, a lot has happened since Baillie Gifford took over the management of the trust in June 2018 – think Brexit (which officially kicked in during January 2020); the pandemic; the invasion of Ukraine (which hit European energy markets in particular); rapid interest rate rises to rein in steeply rising inflation; and signs more recently that central banks are finally getting inflation back under control).

BGUK’s NAV total return outperformed that of the broader UK market (as measured by the MSCI UK Index) both in the run-up to COVID and then during the growth rally that followed, where it benefitted significantly. However, higher interest rates weighed heavily on growth stocks, which hit BGUK’s NAV and share price performance as illustrated in Figures 10 and 11.

**Figure 10: BGUK’s NAV total return relative to various indices, over five years to 31 July 2024**



Source: Morningstar, Marten & Co

**Figure 11: Cumulative total return performance over periods ending 31 July 2024**

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	10 years (%)	YTD (%)	BG tenure <sup>1</sup> (%)
<b>BGUK NAV</b>	4.9	9.6	10.2	8.1	(10.2)	14.2	45.6	10.8	12.5
<b>BGUK share price</b>	6.4	11.3	9.5	7.5	(19.3)	4.4	35.7	9.8	5.0
<b>MSCI UK</b>	2.5	3.4	12.0	13.5	36.7	33.7	81.1	10.6	38.8
<b>MSCI UK Growth</b>	1.4	2.0	8.1	7.8	19.7	34.9	108.5	8.3	53.2
<b>MSCI World</b>	0.2	5.9	11.7	19.1	34.0	72.6	244.1	13.2	100.0
<b>Peer group average NAV<sup>2</sup></b>	5.8	8.5	14.0	18.0	6.3	37.7	84.4	13.1	29.7
<b>Peer group average share price<sup>2</sup></b>	7.7	12.0	17.7	23.2	3.3	40.5	87.2	15.9	31.3

**Source:** Morningstar, Marten & Co. Note: 1) The managers' tenure is calculated from 30 June 2018, the date at which Baillie Gifford was appointed as manager with effect from. 2) The peer group is defined on page 23.

Given this performance, BGUK's historically high discount to NAV and the upcoming continuation vote, Baillie Gifford has undertaken some analysis of the trust's performance since its peak in August 2021 to assess whether significantly superior outcomes could have been achieved within the remit of the trust's strategy. We explore this further below as well as the results for the most recent financial year (to 30 April 2024).

## Results for the year ended 30 April 2024

For the year ended 30 April 2024, BGUK provided NAV and share price total returns of 0.6% and -0.5% respectively, both significantly behind the returns on the broader MSCI UK index (7.7%) and the MSCI UK Growth Index (4.9%). It was also noticeably below the return of its All-Share benchmark, which BGUK's annual report says returned 7.5%.

Most of the underperformance occurred during the first half of the trust's financial year – during the second half (the six months to 30 April 2024) BGUK provided share price and NAV total returns of 14.2% and 13.8% respectively, modestly outperforming the MSCI UK Index (13.5%) and MSCI UK Growth Index (13.7%). It is interesting to note that the improved absolute and relative performance that occurred in the second half when the headwinds towards growth have been fierce.

BGUK's managers say that the performance of individual holdings in the portfolio was much more dispersed than the overall returns of the indexes suggest and that the market has been sensitive to unexpected bad news, particularly for growth businesses.



## Top positive contributors to performance for the year to 30 April 2024

Figure 12 provides the top five contributors to performance for the year ended 30 April 2024. Abcam, Wise, Howden Joinery and Ashtead are discussed below, while 4imprint was discussed in the asset allocation section on page 13.

**Figure 12: Top five positive contributors to return**

Stock	Total return (%) <sup>1</sup>	Contribution (%)
Abcam <sup>2</sup>	47.0	1.5
4imprint	49.4	1.3
Wise	41.2	1.2
Howden Joinery	31.3	1.1
Ashtead	29.5	1.1

**Source:** Baillie Gifford, Revolution, Sterling, Bloomberg, Marten & Co. Note: 1) Total return is calculated in sterling terms on a gross dividend basis. 2) Abcam was sold during the period.

**Figure 13: Abcam share price (GBp)<sup>1</sup>**



**Source:** Bloomberg Note: 1) One-year to delisting.

**Figure 14: Wise share price (GBp)**



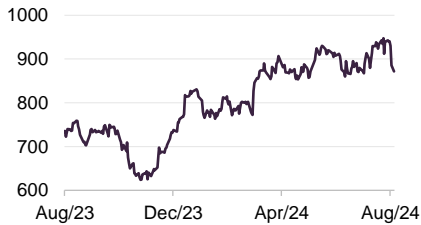
**Source:** Bloomberg

- Abcam – the online antibodies supplier was purchased by Danaher, the life sciences and diagnostics provider, for US\$24 per share in a transaction that closed in December 2023. Baillie Gifford had been a long-time holder, having invested during Abcam’s IPO in November 2005, and they felt that the bid was opportunistic (it was a large multiple, but on depressed margins). However, Abcam’s management team had recommended the bid and, although the founder put forward a proposal to return, BGUK’s managers were not able to get comfortable with the proposal and the risks this entailed (they did not know who the new board might be and feared that an intended focus on cost-cutting could see employees depart for Danaher if the bid failed). They sold out before the shareholder meeting to approve the merger.

- 4imprint – see page 13.
- Wise – this London-based fintech company provides an online platform to send and receive money internationally at low cost. It continues to disintermediate (offering an alternative that cuts out the middleman) the international money-transfer services of the traditional banks that have historically charged a premium for this relatively simple service and has been growing its market share and cementing its position by sharing the benefits of scale with its customers.

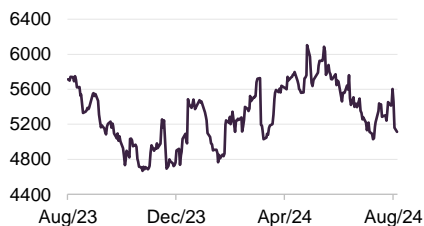
BGUK’s managers say that banks have conflicts of interest when it comes to money transfers and do not have the infrastructure to compete. They think that Wise is effectively becoming another SWIFT (The Society for Worldwide Interbank Financial Telecommunication, a cooperative owned by the banks and other member firms that use its service) and will eventually be a big volume player in what is a large, global, cross-border market (we discussed Wise in our September 2023 note – see page 13 of that note for more details).

**Figure 15: Howden Joinery share price (GBp)**



Source: Bloomberg

**Figure 16: Ashtead share price (GBp)**



Source: Bloomberg

- Howden Joinery – this manufacturer and distributor of kitchens and other joinery products to the building trade in the UK continues to grow – the company now has 851 depots in the UK and 76 in Europe – which it attributes to its trade-only model that ensures its products are fitted to a high standard. BGUK’s managers think that it has a compelling customer proposition which combines local depots in convenient locations, high stock-availability, and good customer service. They see a long-term opportunity to replicate its successful model in the less mature French market (we discussed Howden Joinery in our September 2023 note – see page 13 of that note for more details).
- Ashtead – the international equipment rental company with national networks in the US, UK and Canada continues to benefit from the trend towards renting plant and equipment, rather than owning it. Although listed in the UK, over 80% of its business is in the US, where it is the second largest provider with stores in 49 states and has been growing strongly, aided by a nationwide network of depots that have great product availability (its asset portfolio includes one million items of plant and equipment).

Ashtead’s share price has performed well on the back of strong results and BGUK’s managers think it is one of the most exciting growth stories in the UK market. They see it as a consolidator in a very fragmented industry, with smaller operators struggling to compete with its scale, and think it can double its market share again over the next decade. Its relationships with suppliers allow it to offer access to large expensive equipment that can be vulnerable to supply constraints.

## Top negative contributors to performance for the year to 30 April 2024

Figure 17 provides the top five detractors from for the year ended 30 April 2024. St. James’s Place, Burberry, Prudential, Genus and FDM are discussed below.

**Figure 17: Top five negative contributors to return**

Stock	Total return (%) <sup>1</sup>	Contribution (%)
St. James’s Place	(61.3)	(2.7)
Burberry	(54.1)	(2.1)
Prudential	(40.9)	(1.4)
Genus	(31.8)	(1.1)
FDM	(45.5)	(0.9)

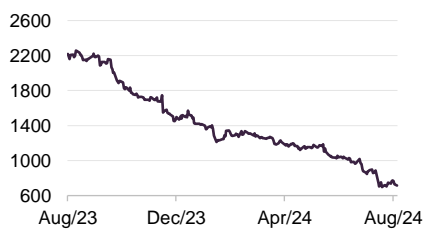
Source: Baillie Gifford, Revolution, Sterling, Bloomberg, Marten & Co. Note: 1) Total return is calculated in sterling terms on a gross dividend basis. 2) FDM was sold during the period.

**Figure 18: St. James's Place share price (GBP)**



Source: Bloomberg

**Figure 19: Burberry share price (GBP)**



Source: Bloomberg

**Figure 20: Prudential share price (GBP)**



Source: Bloomberg

- St. James's Place – the leading UK wealth manager has had a difficult year with its share price lurching downward both as details have emerged regarding changes in its pricing structure (traditionally it has levied hefty exit fees on clients looking to move their pensions or bond investments, but these are being removed in favour of a higher initial fee), and a further unexpected provision of £426m pre-tax (£323.7m post-tax) for potential client refunds “linked to the historic evidencing and delivery of ongoing servicing” – in essence, they cannot prove that some client reviews have been done. On the pricing structure change, BGUK’s managers say that while the market did not like the shift, the pricing was too high and needed to be adjusted to maintain competitiveness and that this should allow it to retain customers and keep its sales momentum. The managers think the market is valuing St. James's Place at around 0.4 x its embedded value, which suggests there is lots of bad news factored into the price, but they think the outlook is better than this, noting that the company is still seeing net inflows of assets.

- Burberry – the luxury goods retailer has come under pressure as China and the US, both key markets for the company, have faced a more challenging macroeconomic backdrop (Burberry is more exposed to China than its peers). In addition, there have been additional costs associated with repositioning the brand. The company’s results for the year to 30 June 2024 showed comparable store sales being 21% down year-on-year and the company has suspended its dividend. It has also said that it is consulting with employees with a view to making around 200 redundancies globally.

In July, shortly after the company’s most recent trading update, CEO Jonathan Akeroyd stepped down. BGUK’s managers are engaging with Burberry’s board and management team to understand the rationale for this change, and what the new CEO means for the strategic direction of the company.

- Prudential – this life and health insurance and asset management company, with a focus on Asia and Africa, has suffered on the back of concerns about the health of the Chinese economy. Whilst the share price has been on a downward trend for the last 18 months, BGUK’s managers see this as sentiment-related rather than there being any obvious issue with the business. They believe the long-term growth investment case remains strong, citing that it is exposed to a wide variety of fast-growing Asian life insurance markets where it has strong competitive positions that allow it to weather shorter term cyclical moves.

BGUK’s managers are impressed with the new management team, highlighting that a clear and simple strategy has been articulated and that the team are beginning to execute on this (the new CEO is pushing out best practice across the business and a myriad set of targets has been simplified to five key objectives). BGUK’s managers expect this to lead to an improvement in what has recently been an indifferent performance.

**Figure 21: Genus share price (GBP)**



Source: Bloomberg

- Genus – this leading animal genetics company has suffered from weakness in a number of key pork-consuming markets on the back of a longer-than-expected bout of African swine fever. It was particularly affected in China, where a more challenging economic backdrop has also played a part, but it has been particularly exposed having invested heavily in recent years to build a local supply chain and expand its local presence. Whilst the bulk of its business has operated on a royalty payment model which helps limit cyclical downside risk, this has not traditionally been the case in China and so it has been more exposed to commodity price swings in that market, although it is increasingly signing royalty customers in that market.

BGUK’s managers think this is a long-term winner with a fantastic global position. In China, they believe it will be well positioned to grow market share as this market recovers and it will also benefit from a trend towards more industrial scale rather than small holding farming. Consensus is towards the Food and Drug Administration (FDA) in the US approving the company’s gene-edited pig in the second half of 2024 (the FDA is already talking to the company about post-approval compliance, which is believed to be a positive sign) and, while this will take time to commercialise in other markets (for example Mexico and China) the FDA’s ruling will likely inform these decisions. In the meantime, the managers think that Genus is well placed to wait this out.

**Figure 22: FDM Group share price (GBP)**



Source: Bloomberg

- FDM Group – this global leader in the recruit-train-deploy sector has struggled recently due to cyclical headwinds. The company is essentially a staffing business focused heavily on IT, particularly for the large banks, and has been heavily disrupted as its customers have cut back spending in this area with the economy slowing down. Its consultancy business, FD Technologies has been similarly affected. BGUK’s managers think that AI may also impact the software development side, but say it is too early to tell, although the company has been increasing productivity and moving up the value chain.

BGUK’s managers continue to think that FDM has a very interesting long-term growth model that benefits from long-term structural trends (for example, data, analytics, cloud and cyber security) that are creating significant demand for IT talent, while there is a significant shortage of expertise, and it is difficult to develop this internally. They are continuing to review the stock, but do not think it is a sensible time to sell, given that it is very cyclically depressed.

## A review of performance in recent years

As we have discussed in detail in our previous notes (see page 35 of this note), BGUK outperformed the broader UK market convincingly in the run up to COVID and then provided strong outperformance during the pandemic – an environment of lower interest rates for longer was conducive to its strongly growth focused strategy.

**Figure 23: BGUK discrete annual total return performance for years to 31 December**

	2019	2020	2021	2022	2023
Share price	28.7	12.7	8.2	(29.9)	2.3
NAV	25.3	4.6	12.1	(22.0)	4.2
Benchmark	19.2	(9.8)	18.3	0.3	7.9

Source: Morningstar

However, as Figure 23 illustrates, it has struggled during the last three calendar years where higher interest rates have been a headwind with macroeconomic considerations overwhelmed microeconomic considerations and a large number of index constituents, that BGUK would not invest in, have performed strongly. In light of this, the managers have conducted some analysis to try and determine whether the losses could have been mitigated through stock selection.

**Figure 24: Top five relative contributors and detractors 31 August 2021 to 30 April 2024**

Stock	Trust average weight (%)	Benchmark average weight (%)	Total return (%)	Contribution (%)
4imprint	2.5	-	138.4	1.8
Abcam	3.0	-	17.0	0.8
HomeServe	0.9	0.1	28.2	0.7
Wayve <sup>1</sup>	0.4	-	253.4	0.7
Vodafone Group	-	1.0	(31.7)	0.5
Genus	3.2	0.1	(68.6)	(4.2)
St. James's Place	3.9	0.3	(69.7)	(4.0)
Shell	-	6.9	120.1	(3.8)
Farfetch <sup>2</sup>	0.8	-	(96.0)	(3.1)
Molten Ventures	1.6	-	(74.3)	(2.8)

Source: Baillie Gifford. Notes: 1) Private company. 2) Sold during period.

Figure 24 shows the top five relative contributors and detractors between 31 August 2021 (the point of peak performance for BGUK) and 30 April 2024. The key takeaways from the analysis are that:

- there has been a lack of big winners within the portfolio;
- several high conviction ideas have performed poorly;
- a number of stocks BGUK did now own have performed well; and
- of the top 15 detractors, BGUK continues to be invested in 11 of them as the managers continue to believe in their long-term prospects (this is after a thorough review of the portfolio).

### The big index winners

Figure 25 shows the large index winners between 31 August 2021 and 30 April 2024. The majority of the stocks in Figure 25 have benefitted from significant external events (for example, higher oil prices, higher interest rates or COVID-

beneficiaries). BGUK's managers say that, for the majority of the companies in Figure 25, they do not believe that these businesses will be able to grow their earnings above the market average over the managers' investment horizon.

**Figure 25: Index winners 31 August 2021 to 30 April 2024**

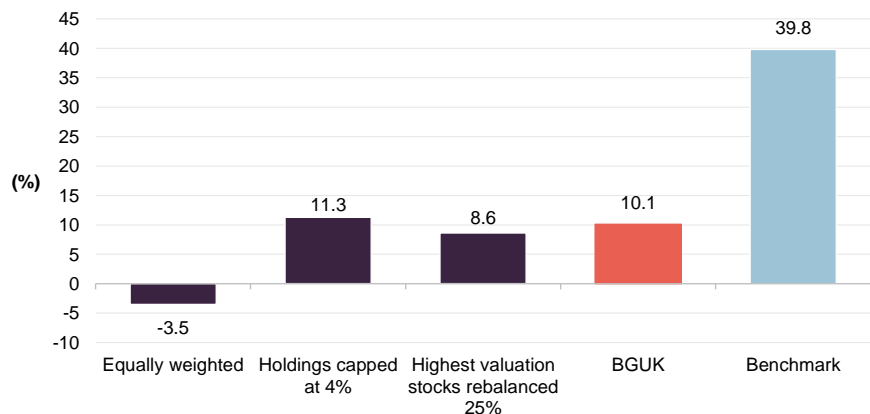
Stock	Macroeconomic event (where applicable)	Share price total return (%)	Average index weight (%)	Contribution (%)
Shell A-share	Sharp increase in oil price following Russia's invasion of Ukraine	120	6.9	(3.8)
HSBC	Interest rate hikes strengthened net interest margins	110	4.7	(2.5)
BP	Sharp increase in oil price following Russia's invasion of Ukraine	96	3.4	(1.5)
AstraZeneca	Roll-out of COVID vaccine	50	6.6	(1.5)
Rolls Royce		260	0.6	(0.9)
BAE Systems	Beneficiary of geopolitical events	157	1.2	(0.9)
Glencore	Supply constraints underpinned the price of metals and minerals	71	2.5	(0.8)
3i Group		134	0.7	(0.5)
Compass		56	1.4	(0.4)
GSK	Big pharma seen as a safe haven	28	2.8	(0.3)

Source: Baillie Gifford. Notes: 1) Private company. 2) Sold during period.

## Could rebalancing the portfolio have mitigated the losses?

Figure 26 illustrates the results of an analysis that measures what the performance of BGUK's portfolio would have been in three different scenarios that are still sensible in the context of its investment objective: operating with an equally weighted portfolio; operating the same portfolio but with holdings capped at 4% portfolio weight; and a portfolio where the highest valuation stocks were rebalanced by 25%.

**Figure 26: Absolute returns since the onset of COVID-19**



Source: Baillie Gifford

As Figure 26 shows, for all three scenarios BGUK's portfolio would have continued to materially underperform its benchmark. The managers' conclusion is that the only way BGUK could have avoided this material underperformance would have been to take new positions in large index constituents. However, this would not be consistent with their investment objective and would have undermined their active, bottom-up, long-term growth-focused approach. The managers argue that what we have witnessed is a very extreme style issue and that, while a large number of their holdings have underperformed in share price terms, they have done well operationally.

As is illustrated in Figure 27 below, BGUK's portfolio has outperformed its benchmark in terms of both earnings and sales growth over one and five years. It is projected to do so again over the next 12-months.

**Figure 27: BGUK earnings and sales growth versus benchmark**

	BGUK	Benchmark Index
Five-year earnings growth (%)	6.3	4.98
One-year earnings growth (%)	(5.4)	(22.5)
One-year forward earnings growth (%)	7.8	6.4
Five-year sales growth (%)	2.8	1.5
One-year sales growth (%)	2.5	(3.2)
One-year forward sales growth (%)	5.8	(2.3)

Source: Baillie Gifford

### Has the managers' sell discipline been effective?

Figure 28 is designed to provide an illustration of the effectiveness of the managers' sell decisions by detailing the performance of positions following their complete exit up until 30 April 2024. The conclusion of the analysis is that the majority of the managers' sell decisions have been supportive to BGUK's performance – the only stock that has meaningfully outperformed since it has been sold is Rolls Royce. The managers add that the benefits from the sales of the positions in Ted Baker and Just Eat are higher than they might appear as significant reductions were made prior to exiting in full; although, with the benefit of hindsight, they held on to the rumps of these positions too long.

The managers observe that we have witnessed an extraordinary few years, where growth has been heavily out of favour and, while this will not reverse immediately, they believe it will and growth should have a long runway for outperformance. As a consequence, they are not changing their style.



**Figure 28: Annualised total return performance of former holdings from exit to 30 April 2024**

Stock	Initial holding size (%)	Date sold	Annualised performance post sale (%)	Annualised benchmark return post sale (%)
Farfetch	1.0	October 2023	(100)	17
Naked Wines	0.4	September 2023	(25)	15
Just Eat Takeaway.com	2.8	August 2022	(14)	8
James Fisher	1.5	June 2021	(35)	7
Rolls-Royce	2.1	September 2020	62	12
Mitchells & Butlers	1.0	May 2020	9	11
Carnival	2.5	March 2020	(8)	11
M&G	0.6	February 2020	7	5
Ted Baker	3.0	December 2019	(21)	5
Jupiter Fund Management	1.9	August 2019	(21)	6
HSBC	2.0	August 2018	5	5

Source: Baillie Gifford. Notes: 1) Private company. 2) Sold during period.

## Peer group

Please [click here](#) to visit QuotedData.com for a live comparison of the UK all companies peer group.

BGUK is a member of the UK all companies sector, which now comprises seven members. All of these are illustrated in Figures 29 through 32. When we last published, there were eight members, but JPMorgan Mid Cap is no longer a constituent following its merger with JPMorgan UK Smaller Companies in February this year.

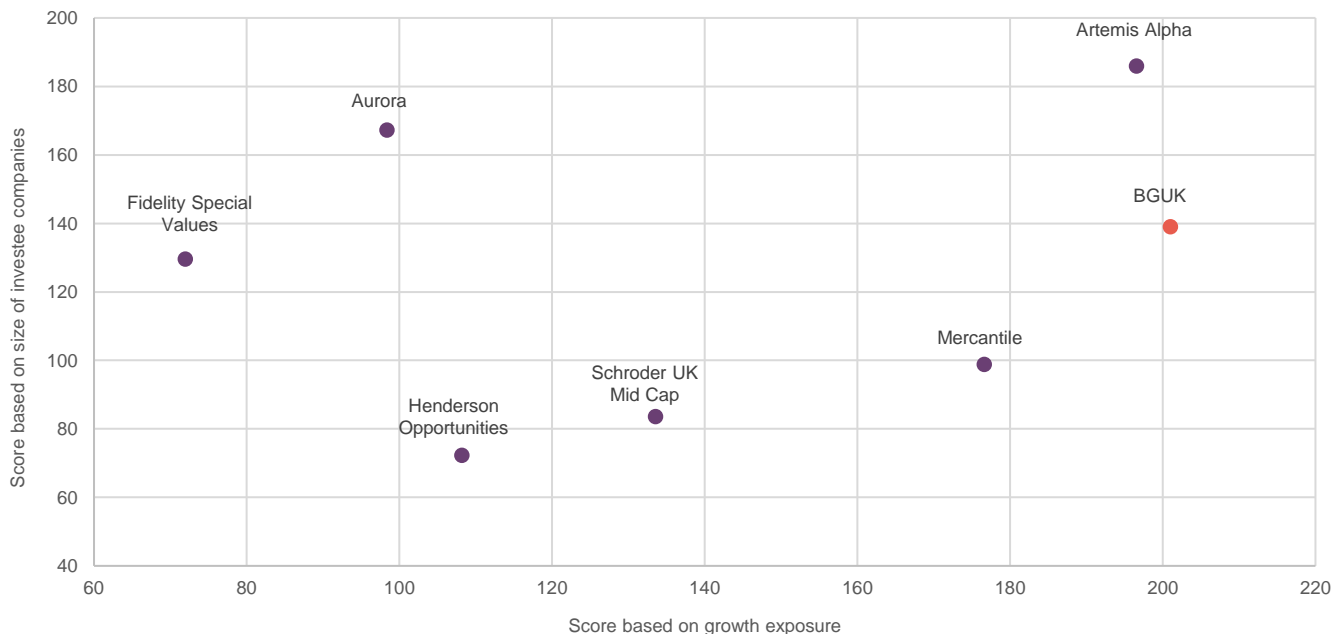
Members of UK all companies will typically have:

- over 80% invested in quoted UK shares;
- an investment objective/policy to generate majority of returns from capital growth.
- a majority of investments in medium- to giant-cap companies;
- a majority of expenses allocated to capital; and
- a UK benchmark.

It is worth noting that, whilst the peer group is fundamentally capital-growth-focused, the Baillie Gifford approach is characterised by a particularly strong emphasis on growth, which is a differentiating factor when comparing BGUK to its peers, as illustrated in the next section.

## A range of styles within the peer group

**Figure 29: Holdings-based style map<sup>1</sup>**



**Source:** Morningstar, Marten & Co. Note: 1) Scores use information retrieved on 12 July 2024.

The map in Figure 29 provides a graphical representation of BGUK’s investment style versus its UK All companies peers. The Y-axis (or vertical axis) is a size score – the larger the score, the larger the underlying investments in the portfolio, while the X-axis (or horizontal axis) is a measure of the growth and value factors (the larger the score, the more growth orientated the trust’s portfolio).

BGUK has the most growth-orientated strategy in its peer group.

Looking at Figure 29, it is clear that, versus its peers, BGUK remains the most growth-orientated strategy. BGUK’s size exposure is towards the larger end of the peer group, although there is clear distance between BGUK and Artemis Alpha, reflecting the fact that BGUK operates with more of an all-cap strategy than Artemis Alpha.

It is also apparent from Figure 29 that the UK all companies sector offers a range of different propositions, in terms of their value-growth tilt and size bias. Fidelity Special Values and Aurora have a much stronger bias towards value, while Henderson Opportunities, Schroder UK Mid Cap and Mercantile’s portfolios are focused further down the market cap scale, particularly Henderson Opportunities.

### Peer group performance

As highlighted in the performance section above, Baillie Gifford took over the management for BGUK at the end of June 2018 following a period of poor relative performance under the previous manager, and so has managed the portfolio for a little over six years now. This has been a particularly challenging period for markets in general, but particularly for BGUK and its growth-orientated peers as interest rates have risen in response to rising inflation.

**Figure 30: Peer group cumulative NAV total return performance to 31 July 2024**

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	YTD (%)	BG's tenure* (%)
<b>BGUK</b>	4.9	9.6	10.2	8.1	(10.2)	14.2	10.8	12.6
<b>Artemis Alpha</b>	3.4	3.5	15.0	21.6	(3.6)	33.3	14.6	12.1
<b>Aurora</b>	6.5	8.6	9.1	20.7	32.5	66.1	6.3	46.3
<b>Fidelity Special Values</b>	6.4	9.5	18.1	22.1	33.5	53.8	16.9	53.1
<b>Henderson Opportunities</b>	4.4	5.2	11.0	12.0	(13.7)	19.3	8.9	10.2
<b>Mercantile</b>	7.5	11.3	17.6	23.0	3.6	42.7	17.5	40.8
<b>Schroder UK Mid Cap</b>	7.4	11.6	17.2	18.5	2.3	34.2	16.6	32.9
<b>BGUK rank</b>	5/7	3/7	6/7	7/7	6/7	7/7	5/7	5/7
<b>Sector arithmetic avg.</b>	5.8	8.5	14.0	18.0	6.3	37.7	13.1	29.7
<b>Sector arithmetic avg. exc. BGUK</b>	5.9	8.3	14.7	19.6	9.1	41.6	13.5	32.6

Source: Morningstar, Marten & Co

All of these funds have suffered from marked falls in their NAVs over the last couple of years or so, which is clearly in the figures for the three-year period in Figure 30 above. This has eaten into the longer-term performance records of all of the funds (pulling down previously good returns for periods of three years and above). However, as we have previously highlighted, there is the potential for marked recoveries as the economic outlook improves. Bar the odd blip, inflation appears to be receding and this has been reflected in the strong positive returns over the one-year period.

A comparison of Figures 30 and 31 shows that similar trends are exhibited in the peer groups share price total returns as the NAV total returns although the longer term performance numbers are generally inferior for the share price total returns, reflecting the general widening of discounts to NAV in the sector during the last three years (this is illustrated in Figure 34 on page 29) although this has tended to trade within a discount range of 10 to 14% during the last couple of years.

As we have previously discussed, BGUK's managers have a long-term investment style and we continue to believe that, generally, long-term horizons will be superior for assessing the strategy. However, we also recognise that the current pressures on growth strategies are likely to have affected BGUK more than its peers, and so this may limit the usefulness of the comparison, although, as discussed elsewhere in this note, we think it has strong reversion potential as the headwind of higher interest rates subsides.

**Figure 31: Peer group cumulative share price total return performance to 31 July 2024**

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	YTD (%)	BG's tenure* (%)
<b>BGUK</b>	6.4	11.3	9.5	7.5	(19.3)	4.4	9.8	5.3
<b>Artemis Alpha</b>	2.7	7.1	16.4	23.1	(10.1)	43.8	13.8	18.6
<b>Aurora</b>	9.1	11.7	12.4	27.9	26.7	51.4	10.8	34.5
<b>Fidelity Special Values</b>	10.4	13.7	21.2	26.5	27.7	46.6	21.0	46.1
<b>Henderson Opportunities</b>	1.6	6.6	15.2	18.4	(11.0)	32.8	15.1	21.7
<b>JPMorgan Mid Cap</b>	13.1	16.1	25.8	35.1	6.0	52.8	21.5	48.5
<b>Schroder UK Mid Cap</b>	10.3	17.4	23.2	23.7	3.2	51.8	19.0	44.2
<b>BGUK rank</b>	5/7	5/7	7/7	7/7	7/7	7/7	7/7	7/7
<b>Sector arithmetic avg.</b>	7.7	12.0	17.7	23.2	3.3	40.5	15.9	31.3
<b>Sector arithmetic avg. exc. BGUK</b>	7.9	12.1	19.0	25.8	7.1	46.5	16.9	35.6

Source: Morningstar, Marten & Co

As is illustrated in Figure 32, BGUK remains the third-largest fund in the peer group in terms of market capitalisation, although the average is distorted by the behemoth that is Mercantile. Despite a trend towards repurchasing shares, all of the funds have seen a marked uplift in market capitalisation since we last published, reflecting improving sentiment towards the UK market (the average market cap has increased by around 17% since September 2023).

BGUK currently has the widest discount to NAV in the sector, having been the fourth widest when we last published. This reflects a tightening of other discounts in the sector as less growth-orientated strategies have outperformed.

BGUK's **ongoing charges ratio** continue to be modestly below the sector average for the peer group, despite the peer group average of 0.72% being pulled down by Aurora and Mercantile for reasons explained below. The sector average has decreased by 2 **basis points (bp)** – equivalent to 0.02% – since we last published (our September 2023 note showed an average for the sector of 0.76%), which is arguably a reflection of the recovery seen in these strategies since we last published.

Aurora (one of the smaller funds in the sector, with a market cap less than half the size of BGUK's) has a particularly low ongoing charges ratio because it does not charge a base management fee. Instead (unlike the overwhelming majority of its peers), it charges a performance fee to compensate. Aurora continues to have the lowest ongoing charges ratio although its lead remains tiny – just 2bp below the colossus that is Mercantile (this just benefits from its significant size advantage – its market cap is 3.5 times the sector average).

**Figure 32: Peer group comparison – size, fees, discount, yield and gearing as at 5 August 2024**

	Market cap (£m)	St. dev. of NAV returns over 5 years	Ongoing charges (%)	Perf. fee	Premium/(discount) (%)	Dividend yield (%)	Gross gearing (%) <sup>3</sup>	Net gearing (%) <sup>3</sup>
<b>BGUK</b>	<b>242.0</b>	<b>24.0</b>	<b>0.70</b>	<b>No</b>	<b>(15.4)</b>	<b>3.4</b>	<b>5.6</b>	<b>4.5</b>
<b>Artemis Alpha</b>	<b>118.4</b>	<b>25.4</b>	<b>1.06</b>	<b>No</b>	<b>(11.1)</b>	<b>1.9</b>	<b>Nil</b>	<b>(2.9)</b>
<b>Aurora</b>	<b>195.6</b>	<b>26.5</b>	<b>0.45<sup>1</sup></b>	<b>Yes<sup>1</sup></b>	<b>(7.4)</b>	<b>1.4</b>	<b>Nil</b>	<b>(4.0)</b>
<b>Fidelity Special Values</b>	<b>1,011.2</b>	<b>22.8</b>	<b>0.70</b>	<b>No</b>	<b>(5.8)</b>	<b>2.8</b>	<b>10.6</b>	<b>8.7</b>
<b>Henderson Opportunities</b>	<b>81.4</b>	<b>23.4</b>	<b>1.02</b>	<b>Yes</b>	<b>(13.0)</b>	<b>3.5</b>	<b>10.8</b>	<b>9.2</b>
<b>Mercantile</b>	<b>1,847.9</b>	<b>28.9</b>	<b>0.47</b>	<b>No</b>	<b>(8.6)</b>	<b>3.2</b>	<b>15.7</b>	<b>15.2</b>
<b>Schroder UK Mid Cap</b>	<b>215.8</b>	<b>27.4</b>	<b>0.97</b>	<b>No</b>	<b>(8.5)</b>	<b>3.3</b>	<b>10.5</b>	<b>18.9</b>
<b>BGUK rank<sup>2</sup></b>	<b>3/7</b>	<b>3/7</b>	<b>3/7</b>		<b>1/7</b>	<b>2/7</b>	<b>3/7</b>	<b>3/7</b>
<b>Sector arithmetic avg.</b>	<b>530.3</b>	<b>25.5</b>	<b>0.72</b>		<b>(10.0)</b>	<b>2.8</b>	<b>7.1</b>	<b>5.1</b>
<b>Sector arithmetic avg. exc. BGUK</b>	<b>578.4</b>	<b>25.7</b>	<b>0.73</b>		<b>(9.1)</b>	<b>2.7</b>	<b>7.9</b>	<b>7.5</b>

**Source:** The AIC, Morningstar, Company factsheets, Marten & Co Notes: 1) Aurora does not charge a base management fee and, consequently, has a particularly low ongoing charges ratio. It charges a performance fee instead, based on the outperformance of its benchmark. 2) Market cap and dividend yield are ranked in increasing size order (the larger the market cap or dividend yield, the higher the ranking). All other rankings are in decreasing size order (the lower the standard deviation of returns, the lower the ongoing charges ratio, the lower the value of the premium/(discount), the lower the gross and net gearing, all correspond to a higher ranking). 3) Gross and net gearing are as at 30 June 2024 and are calculated as a proportion of net assets. A negative figure indicates a net cash position.

Gearing (borrowing) is another consideration, and this can be more of a concern for investors when markets are at more elevated levels. BGUK's gearing levels (data as at the end of June 2024) are modest and noticeably below the sector averages (BGUK's gross and net gearing figures (gross is calculate before deducting cash and equivalents, net is after deducting these) are 71% and 88% of the sector averages respectively). Artemis Alpha and Aurora continue to have net cash balances. As we have noted previously, these trusts will be less exposed in the event that markets retrench, but will suffer more heavily from cash drag if markets move up.

BGUK, like most of the funds in this peer group, does not pay a performance fee.

Traditionally, in what is a capital-growth-focused sector, BGUK's **dividend yield** has tended to be low and modestly below the sector average. However, as discussed in the dividend section below, reflecting strong income generation during the last financial year there has been a marked increase in BGUK's dividend that, coupled with its wide discount to NAV, has pushed its yield to the top of the peer group rankings.

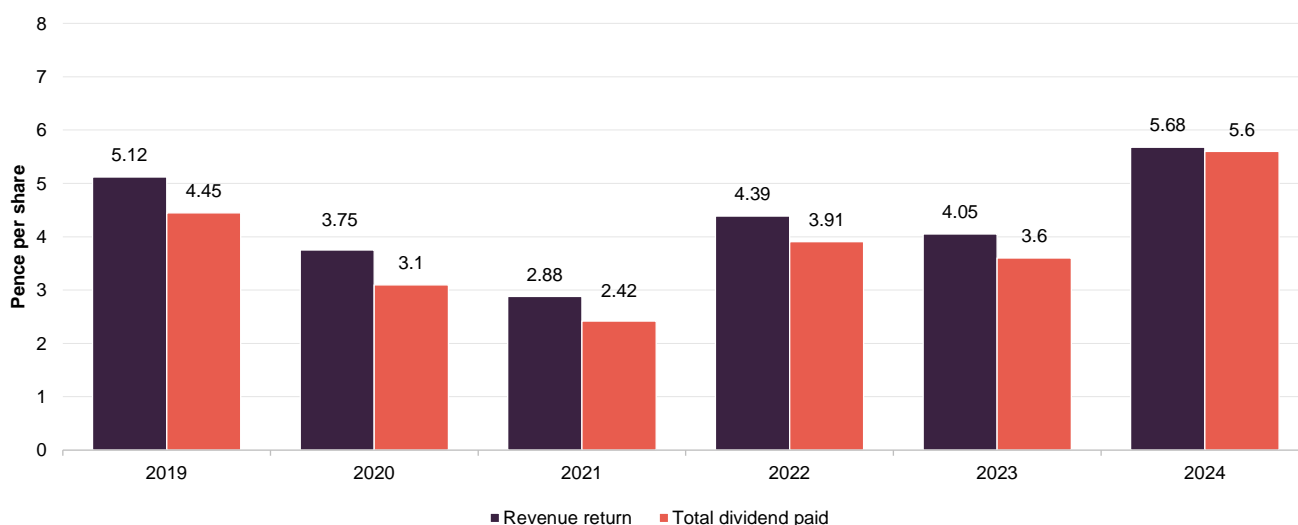
The volatility of BGUK's NAV has tended to be one of the lowest in its peer group over the longer term, a feature that has been retained since the management contract moved to Baillie Gifford.

## Dividend

BGUK's investment strategy focuses on generating capital growth for shareholders and dividends are paid to the extent that they are required to maintain BGUK's investment trust status. As such, whilst the UK has traditionally been one of the higher-yielding markets, dividends are likely to form a small component of shareholders overall returns and BGUK pays one dividend post the AGM each year. This is paid as a final dividend, following shareholders' approval at the AGM (now usually in September).

For the year ended 30 April 2024, BGUK's board is proposing the payment of a final dividend of 5.60p per share (2023: 3.60p per share), which is equivalent to a yield of 3.4% on the trust's share price of 167.00p per share as at 5 August 2024. The 40% increase in revenue income for the 2024 financial year was largely a consequence of an increase in dividends received more generally as well as special dividends from Lancashire Holdings and 4imprint. There is no guarantee that this level of dividend will be repeatable, although, even during the down years, the trend has overwhelmingly been one of BGUK paying a covered dividend (see Figure 33).

**Figure 33: BGUK revenue income and dividend by financial year (ended 30 April)**



Source: Baillie Gifford UK Growth Trust

As Figure 33 shows, BGUK's revenue income has exceeded its dividend in recent years, allowing the trust to build on its revenue reserve. As at 30 April 2024, BGUK had a revenue reserve of £18.2m or 12.41p per share (30 April 2023: £15.1m or 10.04p per share). BGUK is also permitted to pay dividends out of its capital profits.

## Premium/(discount)

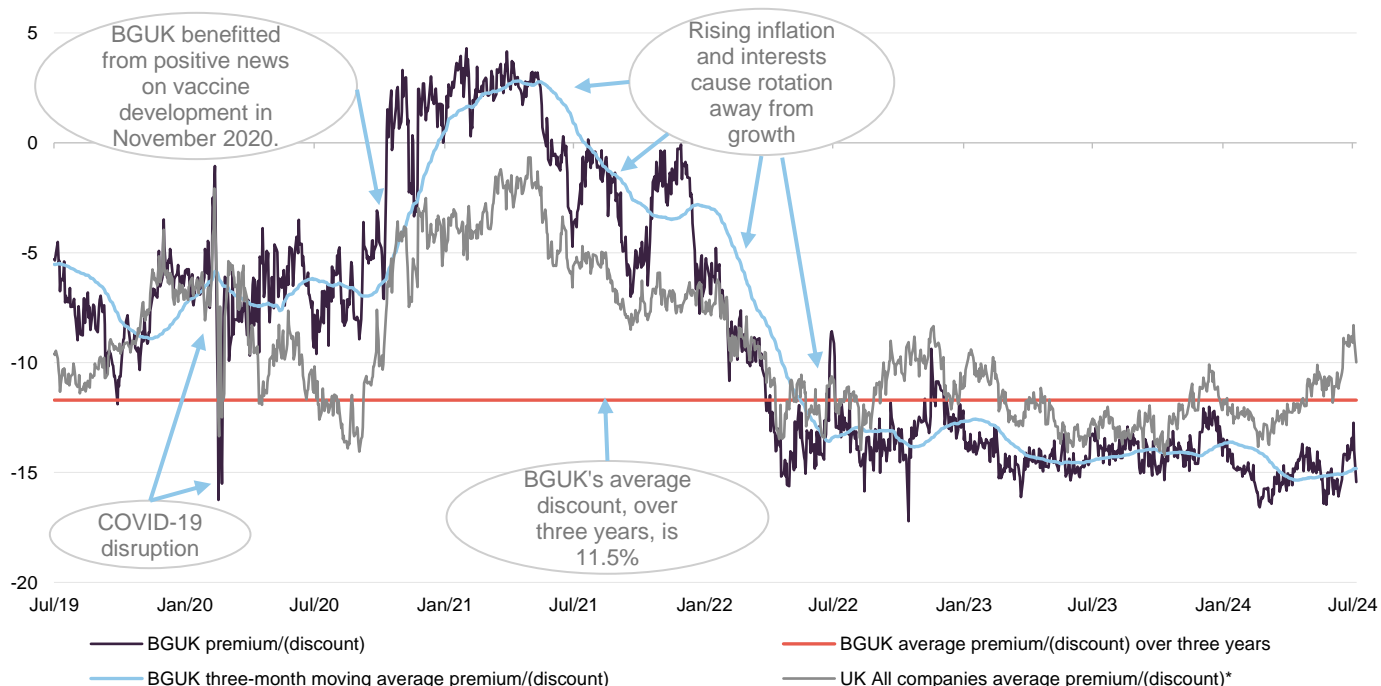
### Discount remains wide relative to history

In our last two notes (see page 35 of this note) we have explained how, against a backdrop of rising inflation expectations and higher interest rates during the last two-

to-three years, growth companies have been out of favour. This has impacted BGUK's NAV performance and caused its discount to NAV to widen significantly, with the trust moving from trading at a sensible single-digit discount to a mid-teens discount today (see Figure 34).

Its peer group average has been similarly affected but, with BGUK being the most growth orientated fund in the group (see page 24), it has been markedly more affected with the peer group moving from a low single digit discount to a low teens discount today (also illustrated in Figure 34).

**Figure 34: BGUK premium/(discount) over five years**



Source: Morningstar, Marten & Co

Higher-than-expected inflation numbers have delayed interest rate cuts.

Rate cuts could be a catalyst for a significant rerating of growth stocks and a narrowing of BGUK's discount

It is clear that the peer group and BGUK in particular offer significant reversion potential as appetite for growth stocks returns, with falling interest rates likely to be instrumental in that regard. While inflation has been edging down year-to-date, it has been higher than was expected at the beginning of the year – both in the UK and the US – the latter being key given its influence on global equity markets more generally. These higher-than-expected inflation numbers have delayed a raft of interest rate cuts that were widely expected at the outset of 2024.

UK inflation has been at the Bank of England's target of 2% for the last two months and the Bank of England cut interest rates by 0.25% to 5% at its meeting on 31 July. Similarly, consensus is increasingly towards the Federal Reserve (Fed) making its first cut in September. We think these first cuts could be a catalyst for a rerating of growth stocks, which should benefit BGUK and its peers in the UK all companies sector. BGUK's managers have reiterated that the underlying companies in the portfolio are performing well at an operational level but this has not been rewarded in their share prices. If sentiment towards growth starts to improve, these could experience significant reratings, which we expect would drive a strong narrowing in BGUK's discount to NAV as well, as has been seen previously.



BGUK's managers are looking for growth stocks with an edge – these will tend to have a competitive advantage versus peers – so should also be able to outperform over the longer term, although, they should also be better placed to weather a more challenging environment. Against this backdrop, the current discount to NAV – 15.4% as at 5 August 2024 – which is close to its five-year high and comparable to the widest level seen during the COVID-related market rout of March 2020, looks to be significantly overdone, particularly once set against the proposed opportunity for shareholders to realise their investment in full at close to NAV in 2029 and the additional continuation vote in 2027. In the meantime, the board is providing support by using its authority to **buy back** stock, repurchasing 5.3m shares during the last 12 months – equivalent to 3.5% of its issued share capital. These repurchases are NAV-accretive for remaining shareholders.

## Share issuance and repurchases

BGUK has the authority to issue up to 10% of its issued share capital and repurchase up to 14.99% of its issued share capital, which gives it mechanisms through which it can moderate its premium or discount to NAV. The board says that it monitors the level of the company's discount or premium to NAV and will authorise share buy backs when it considers it to be in shareholders' best interests.

Whilst there is no formal discount target, the board takes into consideration the trust's discount relative to its peers, the absolute level of discount, discount volatility and the long-term impact on liquidity from share repurchases. Recent experience suggests that it is happy to undertake repurchases in the 10–14% discount range. On the flip side, when BGUK is trading at a premium, the board appears to be happy to see the trust grow in a measured way, and it also appears to be prepared to provide liquidity at premiums in low single digits.

## Fees and costs

### Low base management fee of 0.5% per annum; no performance fee

BGUK's management contract can be terminated at six months' notice.

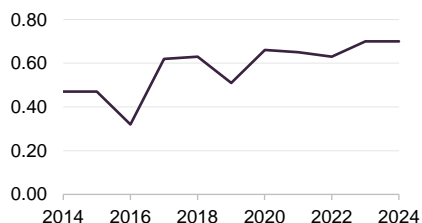
Under the terms of the investment management agreement, Baillie Gifford is entitled to receive a basic management fee of 0.5% per annum of the trust's net total assets. The management fee is calculated and paid quarterly in arrears and there is no performance fee element. The management agreement can be terminated on six months' notice by either side.

### Secretarial and administrative services

In addition to being BGUK's **AIFM** and investment manager, Baillie Gifford & Co Limited also provides company secretarial and administrative services to the trust. The fees for all of these services are covered by the investment management fee discussed above.

The Bank of New York Mellon (International) Limited acts as both the depository and custodian to the company. The fee arrangements for these are not disclosed but are included within the trust's other administrative expenses.

**Figure 35: BGUK ongoing charges ratio (%)<sup>1</sup>**



**Source:** Baillie Gifford UK Growth Trust Note: 1) For financial years ended 30 April.

## Allocation of fees and costs

The investment management fee is allocated 30% to revenue and 70% to capital, reflecting the board's expectation of the long-term split of revenue and capital returns. The ongoing charges ratio for the year ended 30 April 2024 was 0.7% – unchanged from the prior year. Baillie Gifford took over the management of BGUK during the 2018 and waived its management fee for the 2019 year, reducing the ongoing charges to 0.51% for that year (it would have been 0.76% otherwise).

Due to a combination of share issuance and capital growth, BGUK's ongoing charges ratio fell for the years ended 30 April 2020 to 2022 inclusive but rose for 2023 year as capital values fell. It has held steady for 2024, helped by capital values gradually recovering although repurchases have been a headwind. We reiterate our view that if either BGUK's discount narrows and it is once again able to issue shares, or there is a rebound in asset values, BGUK's ongoing charges ratio could start to fall again. A continued settling of interest rates is likely to help in this regard.

## Capital structure and life

### Simple capital structure

BGUK has a simple capital structure with one class of ordinary share in issue. Its ordinary shares have a premium main market listing on the London Stock Exchange and, as at 5 August 2024, there were 160,917,184 in issue with 15,983,974 of these held in **treasury** and 144,933,210 in general circulation.

BGUK is permitted to borrow, although net gearing is not permitted to exceed 20% of total net assets. Within this, the board sets borrowing limits, which it reviews from time to time, to ensure gearing levels are appropriate to market conditions. BGUK has a £30m one-year **revolving credit facility** with The Royal Bank of Scotland International that expires on 5 July 2025. As at 30 June 2024, BGUK had gross gearing of 5.6% and net gearing of 4.5%.

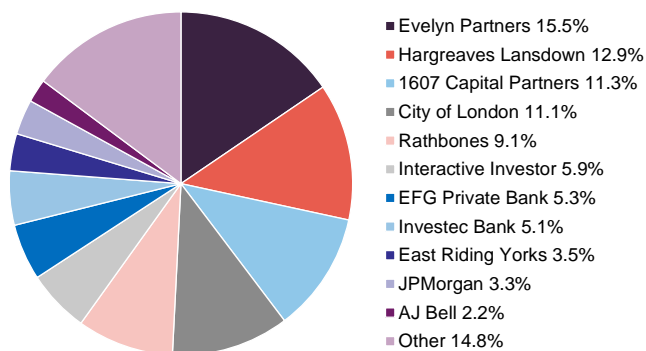
### Major shareholders

Figure 36 illustrates that BGUK has a strong retail element within its share register, reflected by the prominence of the major D2C platforms, which account for around 25% of the share register. Wealth managers/intermediaries are also a significant element, accounting for around 40%. Since we last published, the trend has been one of wealth managers and institutional investors adding to their holdings at the margin.

BGUK has one class of ordinary share in issue. It can gear up to 20% of net assets.

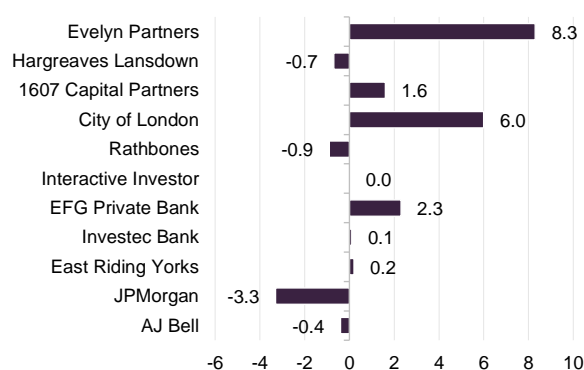
BGUK has a significant retail presence on its share register.

**Figure 36: Major shareholders as at 5 August 2024**



Source: Bloomberg, Marten & Co

**Figure 37: Percentage point changes in shareholdings since 25 September 2023<sup>1</sup>**



Source: Bloomberg, Marten & Co. Note: 1) The date of the shareholder data used when we last published on BGUK.

## Unlimited life with a five-yearly continuation vote

BGUK does not have a fixed winding-up date, but every five years, shareholders are given the opportunity to vote on the continuation of the company as an investment company at the annual general meeting (AGM). This is a special resolution. If this resolution were not passed, the board would put forward proposals to liquidate or otherwise reconstruct or reorganise the company. BGUK shareholders approved the last continuation vote at the August 2019 AGM. The next continuation vote is scheduled for this year's AGM in September.

## New performance-triggered exit opportunity

If the continuation vote is passed, the board has committed that:

1. the board will introduce a one-off five-year performance triggered exit opportunity whereby, in the event the company's NAV per share total return over the five-year period from 30 April 2024 to 30 April 2029 does not equal or exceed the total return on the company's benchmark (FTSE All-Share Index), the company will provide shareholders with the opportunity to realise their investment in full at close to NAV per share; and
2. the company will put forward a resolution at the Annual General Meeting to be held by the company in 2027 for the continuation of the company. This is in addition to the five-yearly continuation votes in the company's Articles of Association and, as such, a continuation vote is expected to be held in 2029 as well.

## Financial calendar

The trust's year-end is 30 April. The annual results are usually released in June or July (interims in November or December) and its AGMs are usually held in September of each year – this year's is on 4 September. As discussed on page 28, BGUK pays one final dividend a year after the AGM if one is required to be paid.

Baillie Gifford has been managing BGUK for just over six years.

## Corporate history

BGUK is a UK investment trust that was originally incorporated on 28 January 1994 as the Schroder UK Growth Fund Plc. The trust, which listed on the London Stock Exchange following its IPO on 10 March 1994, has a premium main market listing. On 13 April 2018, the trust's board announced that it had decided to terminate the management arrangements with Schroder Unit Trusts Limited and appoint Baillie Gifford & Co Limited in their stead. Baillie Gifford was appointed with effect from 30 June 2018, with the trust changing its name to Baillie Gifford UK Growth Fund Plc at the same time. On 25 May 2021, the trust changed its name to Baillie Gifford UK Growth Trust Plc. Baillie Gifford has now been managing BGUK for just over six years.

## Management team

### Iain McCombie

Iain joined Baillie Gifford in 1994 and has spent the majority of his career as an investment manager in the UK equity team. He became a partner in 2005. Iain graduated with an MA in Accountancy from the University of Aberdeen, and qualified as a Chartered Accountant.

### Milena Mileva

Milena joined Baillie Gifford in 2009 and is an investment manager in the UK equity team. She became a partner in 2022. Milena graduated with a BA in Social & Political Sciences from the University of Cambridge in 2007 and an MPhil in Politics from the University of Oxford in 2009.

## Board

All directors retire and stand for re-election annually.

BGUK's board currently comprises four directors, all of whom are non-executive and considered to be independent of the investment manager. The chairman, Neil Rogan, joined the board on 1 January 2024, in advance of the retirement of former chairman Carolan Dobson who was approaching 10 years' service. Carolan retired from the board on 14 June 2024, with Neil becoming Chairman in her stead as planned.

BGUK's articles of association require that newly-appointed directors offer themselves for election at the next AGM. It is board policy that all directors retire and offer themselves for re-election at each AGM.

**Figure 38: Board member – length of service and shareholdings**

Director	Position	Date of appointment	Length of service (years)	Annual fee (GBP) <sup>1</sup>	Shareholding <sup>2</sup>	Years of fee invested <sup>3</sup>
Neil Rogan	Chairman	1 January 2024	0.6	41,000	15,328	0.6
Andrew Westenberger	Chair of the audit committee	5 May 2017	7.2	35,000	20,000	1.0
Ruary Neill	Senior independent director	15 November 2018	5.7	31,500	20,000	1.1
Cathy Pitt	Director	5 August 2021	3.0	30,000	5,362	0.3
Average (service length, annual fee, shareholding, years of fee invested)			4.1	34,750	15,173	0.7

**Source:** Baillie Gifford UK Growth Trust, Marten & Co Notes: 1) Director's fees are those expected for the year ended 30 April 2025. The chairman, audit committee chair and senior independent director positions have earned higher fees historically than other directors reflecting the additional responsibilities of these positions. 2) Shareholdings as per most recent company announcements as at 5 August 2024. Years of fee invested based on BGUK's ordinary share price of 167.00p as at 5 August 2024.

The average length of service is 4.1 years, with Andrew Westenberger, the chair of the audit committee, being the longest-serving, with 7.2 years of service under his belt.

Other than BGUK's board, its directors do not have any other shared directorships. The company's articles of association limit the aggregate fees payable to the directors to a total of £200,000 per annum, with any increase requiring shareholder approval. The expected fee rates for the individual director positions for the current financial year appear unchanged from those applied during the 2024 financial year.

## Recent share purchase and disposal activity by directors

Since we last published, there has been one share purchase by a director, with Neil Rogan, BGUK's newest director and now its chairman, making his inaugural purchase of shares acquiring 15,328 shares, at 162.2p per share, on 21 February 2024. There have been no share sales since we last published. As illustrated in Figure 38, all of BGUK's directors have personal investments in the fund, which we consider to be favourable as it helps align directors' interests with those of shareholders. The average interest is equivalent to 0.7 years or more of their fees, which is broadly in line with its level of 0.8 years when we last published.

### Neil Rogan (chairman)

Neil has had a long career in fund management, most recently at Gartmore/Henderson where he was head of global equities. He also managed Asian portfolios at Fleming, then Jardine Fleming, and was as an investment manager at Touche Remnant.

Neil was appointed to BGUK's board in January 2024 and subsequently became chairman on 14 June 2024. He is chairman of Invesco Asia Trust Plc and a director of JPMorgan Global Growth & Income Trust Plc. Neil was also previously the chairman of Murray Income Trust Plc and a director of The Scottish Investment Trust Plc.

## Andrew Westenberger (chairman of the audit committee)

Andrew is a Chartered Accountant and is currently chief financial officer of Hurst Point Group. Previously, he was the chief financial officer of Tysers Insurance Brokers, an independent specialist broker and risk management firm, and group finance director of Brewin Dolphin Holdings Plc and Evolution Group Plc. He was also a non-executive director and trustee of the Chartered Institute of Securities and Investments and has also held senior finance roles at Barclays Capital and Deutsche Bank.

## Cathy Pitt (director)

Cathy is a consultant partner at CMS specialising in investment funds, with particular responsibility for investment companies. She has over 20 years' experience as a senior corporate legal adviser in the investment management and investment trust sectors, with expertise in investment management regulation, investment company corporate affairs, capital markets and corporate governance. Cathy is also a non-executive director of Gresham House Energy Storage Fund Plc and the Association of Investment Companies.

## Ruary Neill (senior independent director)

Ruary has had a career in investment banking. He has worked for UBS Investment Bank in the UK, prior to which he spent several years in the financial sector working in Asian Equity Markets for UBS Investment Bank and Schroder Securities. Ruary is currently a director of JP Morgan Emerging Markets Investment Trust Plc and is a member of the Advisory Board, SOAS China Institute, London University.

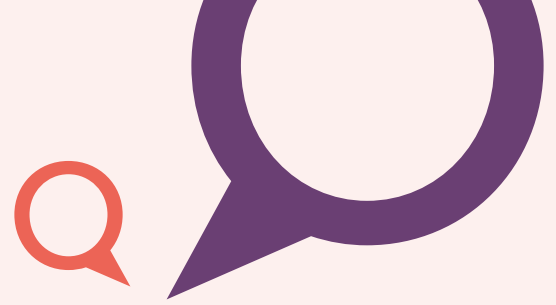
## Previous publications

Readers interested in further information about BGUK may wish to read our previous notes, which are detailed in the table below. You can read the notes by clicking on the links in the table or by visiting our website.

**Figure 39: QuotedData's previously published notes on BGUK**

Title	Note type	Publication date
<a href="#">Looking way beyond the now</a>	Initiation	18 August 2021
<a href="#">Patience will be rewarded</a>	Annual overview	15 September 2022
<a href="#">A recipe for a rerating</a>	Annual overview	26 September 2023

Source: Marten & Co



## IMPORTANT INFORMATION

Marten & Co (which is authorised and regulated by the Financial Conduct Authority) was paid to produce this note on Baillie Gifford UK Growth Trust Plc.

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