



UK MARKET RIPE FOR STOCK PICKERS

Being a UK equity fund manager may seem a somewhat depressing occupation these days. As the spectre of the country's exit from the European Union looms large, there are plenty of doomsayers taking the view that investing money in UK stocks is a foolish thing to do. Why would anyone bother evaluating UK investment opportunities when you could invest in the innovative dynamism of certain parts of corporate America, or the allure of China's fascinating journey to global economic dominance? Against these competing attractions, the fate of UK PLC seems a sorry one.

We, however, refuse to be disheartened. Rather than being dull and futile, investing in the UK market is for us a greatly rewarding exercise. This is simply because there are some tremendously exciting British businesses which we wish to help grow to become multiples of their current size in the years to come. Some of these companies might not be household names, but they are true world leaders in their fields. They have built enviable competitive positions that rivals find hard to match. They are run with ambition and a real sense of purpose, confidently unlocking large growth opportunities which often span the globe. They feed on powerful, deeply entrenched social trends and, through innovation, aim to solve some of the most intractable challenges facing the



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Baillie Gifford UK Growth Fund plc top 10 holdings

Holdings	% of total assets
Hargreaves Lansdown	4.6
Prudential	4.1
St. James's Place	4.0
Renishaw	3.6
Ted Baker	3.3
Halma	3.0
Auto Trader Group	3.0
Bunzl	2.9
Abcam	2.8
Legal & General	2.8

Source: Baillie Gifford & Co. Data as at 30 Sept 2018.

industries they operate in. We believe that these companies' prosperity will not be easily derailed. Their strengths and adaptability should enable them to drive their vision, even amid evidently seismic political and economic events. And, by continuing to be sizeable, highly committed and patient shareholders of these businesses, while acting on our clients behalf, we have put ourselves in the privileged position of taking a disproportionate share of any future success.

We are unashamedly bottom-up investors. You will not hear us muse on, or attempt to predict, the daily twists and turns of economic data, stock market sentiment, or government policy. We do not think we can add much on

those issues. Instead, our enthusiasm is for exceptional UK growth businesses that span a wide variety of different industries.

Long-term winners and the need for a strong corporate culture

At Baillie Gifford, we have learnt a lot by owning great businesses and hope we can use some of those lessons to spot other big winners in the future. One of the key things we have observed is just how crucial unusual corporate cultures have been to their excellence. This manifests itself in a number of ways. First, they are all united by an unwavering focus on the long term. Whilst most companies tend to pay lip service to long-termism, it seems to us that precious few have the courage to consistently follow this belief. For most, a quarter or two of weak demand or missed earnings expectations is sufficient to result in ad hoc cost cutting and various forms of financial engineering to shore up the numbers. Second, great UK growth businesses all have strong identities and a vision which extends far beyond the imperative to generate profit for shareholders. This in turn tends to result in them having a strong alignment with their customers and employees.

Conclusion

The scale of the opportunity for the British companies in Baillie Gifford's UK Growth Fund portfolio truly excites us. Setbacks along the way are inevitable, but with continued patience as shareholders, we and our clients, should be able to fully benefit from this great potential. ■

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