

SPRING 2020

# TRUST

THE INVESTMENT TRUST MAGAZINE FROM BAILLIE GIFFORD



## UNTOLD STORIES

Hallie Rubenhold on the hidden  
history of the Ripper's victims

## DEFINING DECADE

James Anderson looks back at what  
10 years of investing have taught us

## SYSTEM FAILURE

Is capitalism worth rescuing?  
Branko Milanovic investigates

## COVID-19

A lot has changed since we published *Trust* in February 2020. It was pre-lockdown and before the dramatic volatility we have seen in stock markets in recent months. As long-term investors we remain resolute in the views expressed in the magazine. History teaches us that acting hastily in a crisis is usually unhelpful.

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Shanghai, China.

# WELCOME

Welcome back to regular readers and hello if you are picking up our award-winning magazine for the first time. This is our 40th issue and we celebrate this landmark by bringing you more interviews with renowned authors, including bestselling historian Hallie Rubenhold and Branko Milanovic, one of the world's leading economists on income distribution and inequality.

Rubenhold's book *The Five: The Untold Lives of the Women Killed by Jack the Ripper* won The Baillie Gifford Prize for Non-Fiction in 2019. We met in The Ten Bells pub in east London, which has close links to the Whitechapel murders of 1888. The author discusses why history has a habit of glorifying serial killers while ignoring their victims. From crime to capitalism, Milanovic looks at whether our economic system might be both the problem and the solution. His book, *Capitalism, Alone: The Future of the System That Rules the World*, explores some of the radical steps required to save the system.

*Trust* magazine was born in 2004. This was the year Google – now owned by Alphabet – introduced Gmail to a sceptical audience. Mark Zuckerberg launched Facebook from his Harvard dorm. And Grubhub was founded by two web developers with ambitious plans to transform the way we order food (it now delivers over 450,000 orders a day, mainly in the US).

Baillie Gifford was an early investor in all three companies. To be successful investors in the future, it's crucial to understand the past. So, also in this issue, Scottish Mortgage Investment Trust joint manager James Anderson looks back at how he saw the world in 2010 and how the deep trends that emerged back then continue to unfold and shape our future. Meanwhile, we hear from Luke Ward, joint deputy manager of Edinburgh Worldwide Investment Trust, about the billionaire-backed space companies turning science fiction into reality.

One of the most successful investments of all time was Naspers' \$35 million investment in Chinese internet giant Tencent, now worth over \$100 billion. How do you top that? In a rare interview with Africa's biggest company, the Monks Investment Trust's joint deputy manager Spencer Adair talks to the chief executive officer, Bob van Dijk, about the search for the next Tencent.

I hope you enjoy our 40th issue. If you have any thoughts and comments, drop me a note at [malcolm.borthwick@bailliegifford.com](mailto:malcolm.borthwick@bailliegifford.com)

**Malcolm Borthwick**  
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## COVID-19

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# SPONSORSHIP AND EVENTS

## Keep tabs on top writers

The brightest minds, the widest vision and the liveliest viewpoints: these and more can be found in Baillie Gifford’s author interviews, where writers talk about the intriguing issues of our age.

Our website features an array of interviews with leading authors. These include winners of the Baillie Gifford Prize for Non-Fiction, such as Serhii Plokhy who wrote *Chernobyl, History of a Tragedy* and AIDS activist David France, author of *How to Survive a Plague*. Elsewhere, we discuss whether it’s time to return to Keynesian economics with thinker and biographer Robert Skidelsky, and we hear from journalist Rose George on the science and stigmas surrounding blood.

The range of subjects reflects Baillie Gifford’s insatiable curiosity about how the world works and what the future might have in store. Stay tuned in to the conversation by visiting [www.bailliegifford.com/authors](http://www.bailliegifford.com/authors)

## Meet the managers

Want to hear more about Baillie Gifford’s range of investment trusts? Come and join us at our forums for private investors. These well-attended events give you the opportunity to hear from the managers of the trusts, as they discuss the themes and opportunities influencing their investment decisions.

The Scottish Mortgage Forums will take place on 10 June in Bournemouth, 16 June in London and 12 November in Harrogate. The Private Investor Forum, where you can hear from a range of investment trust managers, takes place on 10 September at the Institute of Engineering and Technology (IET) in London. You can find out more about these events at [www.bailliegifford.com/smforum](http://www.bailliegifford.com/smforum) and [www.bailliegifford.com/forum](http://www.bailliegifford.com/forum)

## Free subscription to *Trust*

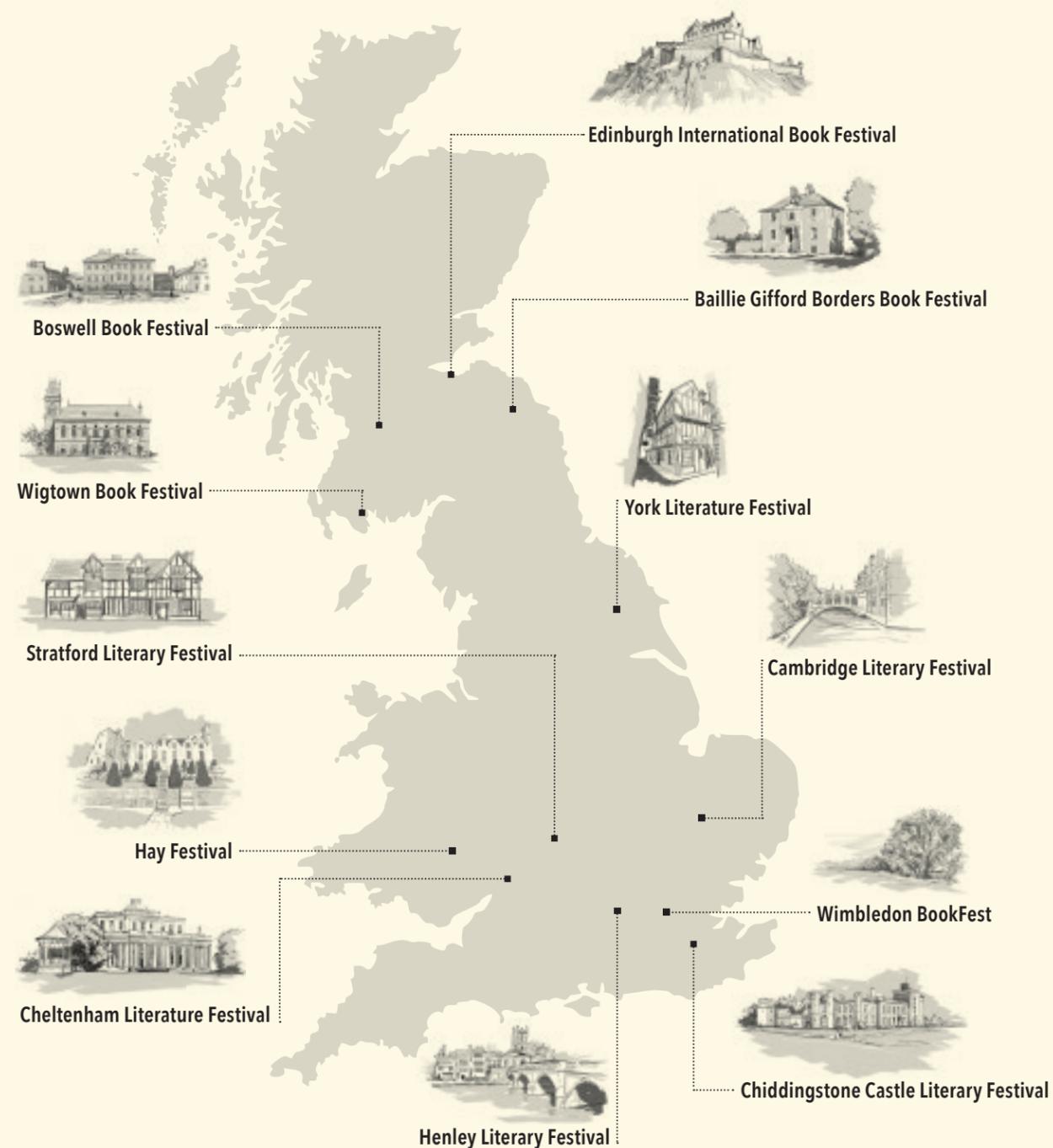
What do good literature and thoughtful investment management have in common? We see some important parallels. Creating books that stand the test of time takes hard work, insight and intelligence, all qualities that Baillie Gifford strives to bring to investment.

It’s why we sponsor non-fiction events. That means anyone inspired by these events can explore the digital edition of *Trust* where you can read insightful articles with renowned authors. In addition, we bring you a range of views from our investment managers.

Subscribers to *Trust* can apply for free tickets to our book festival events (while stocks last, terms and conditions apply) and we also run literary festival-related prize draws throughout the year. For example, those who subscribe to *Trust* digital before midnight on 4 December 2020 have the opportunity to win a luxury break in our home city of Edinburgh, UNESCO City of Literature. See the insert overleaf for details and subscribe at [www.bailliegifford.com/subscribe](http://www.bailliegifford.com/subscribe) for a chance to secure this glittering prize.



© Edinburgh International Book Festival.



## Baillie Gifford’s book festival sponsorship

Britain’s busy book festival calendar continues to thrive as our map above shows. Baillie Gifford’s sponsorship programme of festivals large and small helps to bring authors and readers together for inspiration and discussion.

You can find out more information about our literary festival sponsorship at [www.bailliegifford.com/sponsorship](http://www.bailliegifford.com/sponsorship)

# Win a bookish break: See Edinburgh in style



Fancy exploring UNESCO's City of Literature at your leisure, and at our expense? Then subscribe to the digital version of our biannual investment trust magazine *Trust*. As well as receiving the award-winning magazine's array of insightful articles and literary interviews straight into your inbox, you and a plus-one could win a luxury break in Baillie Gifford's home city.

All subscribers who complete and submit the online form are eligible for our prize draw, with a chance of winning three night's accommodation for two people, plus breakfast, in Edinburgh's 5-star Waldorf Astoria, formerly the Caledonian Hotel.

Winners are also entitled to a tasting menu experience at the award-winning Castle Terrace Restaurant, a tour of the atmospheric Mary Kings Close and a choice of one of four Edinburgh Bus Tours. The prize can be taken at any time of the winner's choice, subject to availability, between 1 January and 24 December 2021.

Winners will also receive a pair of return flights, or a pair of first class rail tickets, from within the UK.

Edinburgh, home of Baillie Gifford since 1908 is a spectacular destination, known for its wealth of art and heritage attractions as well as its rich literary history and unique setting. In 2004 Edinburgh was designated UNESCO's first City of Literature, as befitting its creative legacy as a home of Sir Walter Scott, Sir Arthur Conan Doyle, Dame Muriel Spark and JK Rowling.

**For your chance to win this spectacular prize complete and submit the entry form at [www.bailliegifford.com/subscribe](http://www.bailliegifford.com/subscribe)**

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The *Trust* digital subscription offer to *Win a bookish break: See Edinburgh in style* is open to Festival attendees and Festival newsletter subscribers, other than Baillie Gifford group employees and their families, or anyone else connected in any way to the prize draw. Entrants must be UK residents and over the age of 18 at the date of entry. Only one entry per person is permitted. **ENTRY IS AUTOMATIC UPON COMPLETING AND SUBMITTING THE ONLINE SUBSCRIPTION FORM FOR TRUST DIGITAL AT [WWW.BAILLIEGIFFORD.COM/SUBSCRIBE](http://WWW.BAILLIEGIFFORD.COM/SUBSCRIBE) ONLY.** The closing date is midnight at the end of 4 December 2020 and the winning entry will be drawn at random by, or under the supervision of, an independent person no later than 11 December 2020. Entries received after the closing date will not qualify and no responsibility will be taken for lost, delayed, or incomplete entries, however caused.

Prize for two people comprises: three consecutive nights in the Waldorf Astoria Edinburgh with breakfast; return flights to Edinburgh Airport from any UK airport, or return first class rail travel to Edinburgh Waverley from any UK over-ground station; voucher for a Tasting Menu Experience on one evening during stay excluding drinks at The Castle Terrace Restaurant; a voucher of the winner's choice for a guided Edinburgh bus tour; and a pre-paid reservation for a tour of Mary King's Close. Additional meals, drinks and other incidentals are not included. Prize must be taken between 1 January and 24 December 2021 and is subject to availability. Baillie Gifford reserves the right to offer an alternative prize of approximate equal value.

Prize is non-transferable non-exchangeable. No cash alternative. As far as permitted by law, Baillie Gifford will not be responsible or liable for any loss, personal injury or damage arising as a result of taking the prize. Statutory rights not affected.

The winner will be notified by email or post within 3 business days of the draw date. If no response is received from the winner within 14 calendar days of the date of posting/emailing the notification, a replacement winner will be randomly selected and notified on the same basis. No correspondence will be entered into and Baillie Gifford's decision is final. Baillie Gifford must publish or make available information that indicates that a valid award took place. Accordingly, Baillie Gifford will send the surname and county of the winner to anyone who emails [trustenquiries@bailliegifford.com](mailto:trustenquiries@bailliegifford.com) or writes to Sponsorship Team, Baillie Gifford, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN (enclosing a self-addressed envelope) within one month after the closing date stated above. If you object to any or all of your surname, county and winning entry being published or made available, please contact Baillie Gifford at [trustenquiries@bailliegifford.com](mailto:trustenquiries@bailliegifford.com). In any event Baillie Gifford must provide the information and winning entry to the Advertising Standards Authority on request. Personal data supplied during the course of this promotion will only be processed as set out in Baillie Gifford's privacy policy available at [www.bailliegifford.com/privacy](http://www.bailliegifford.com/privacy)

By entering into the prize draw, entrants agree to be bound by these terms and conditions, which will be construed in accordance with and governed by the laws of Scotland.



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# FIVE UNTOLD LIVES

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*So much is written about Jack the Ripper, but so little is known about his victims. Hallie Rubenhold, whose book won The Baillie Gifford Prize for Non-Fiction, talks to Malcolm Borthwick about why we need to tell their stories*

*Photography by Jenny Lewis.*

There's the legend and then there's the reality of Jack the Ripper, explains Hallie Rubenhold. "The Ten Bells sits at the crossroads of both, and has become magnetic north for Ripperologists," she says. It is at this magnetic north that I meet the author, broadcaster and social historian. The pub is opposite Spitalfields Market, which was built in 1887, a year before the murders, and it stands next door to Christ Church Spitalfields, designed by Nicholas Hawksmoor. It's thought that Annie Chapman drank here shortly before she was murdered by Jack the Ripper. Another of his victims, Mary Jane Kelly, is said to have solicited trade outside the pub.

Much has been written about the gruesome murders in 1888; Ripper tours are widespread; and just around the corner you can even get your hair cut by Jack the Clipper, who describes himself as "London born and bred". It's a thriving industry that often blurs fact with fiction. Chapman and Kelly both lived close to the pub but Rubenhold explains:

"We don't know for sure that any of the Ripper victims even came to this pub. It's about stripping back the layers and trying to figure out what the truth is." This is what Rubenhold does in her book, *The Five: The Untold Lives of the Women Killed by Jack the Ripper*.

Her extraordinary feat of archival research has ruffled the feathers of Ripperologists, with some even comparing her to Holocaust denier David Irving. "Ripperology is a cult and they see themselves as the keepers of the flame," she claims. "There's so much sexism and misogyny in this cult, and I'm an outsider. I have become this voodoo doll." This is clear from the Ripper tour I go on the night before. The guide is critical of Rubenhold's book, suggesting much of it is based on guesswork, relying heavily on "woulds" and "could haves". The Ripperologists are lashing out, Rubenhold maintains, because she has disrupted the narrative.

*The Ripperologists are lashing out, Rubenhold maintains, because she has disrupted the narrative.*



Hallie Rubenhold and Malcolm Borthwick in The Ten Bells, Spitalfields.





The bestselling author, who has written three works of non-fiction and two novels, said she wanted to write something different. “I’m not the sort of historian who is interested in the bedtime stories of history or telling well-known stories over and over again. You see parts of history being colonised by particular writers: Charles Dickens’s London and Jane Austen’s England. The experience of life is much broader, and the experience of history is much broader. I feel determined to get the public interested in the reality.”

Rubenholt’s own determination and love of history are clear. She is both an historian and campaigner for women’s untold stories. The author becomes animated as she talks about wading through census records and ledgers from the Peabody Housing Association to determine who married whom and who lived where. She recounts listening to Philip Glass music into the early hours and seeing these long-dead, long-forgotten people “coming to life through the darkness, in this witching hour”.

This isn’t a book about Jack the Ripper the man, and Rubenholt ignores both the gore of the murders and speculation about the killer. This is about the victims: Mary Ann ‘Polly’ Nichols, Annie Chapman, Elizabeth Stride, Catherine Eddowes and Mary Jane Kelly. She humanises the victims by telling their stories as daughters, wives, mothers, sisters and lovers. As women and as human beings. It’s a fascinating and at times brutal revelation of what it was like to be poor in Victorian England.

One of the biggest and most malign myths of all, claims Rubenholt, is that the victims were all prostitutes. She maintains that there is no hard evidence to prove this. “Ripperologists don’t evaluate the sources. If you look at the death certificates drawn up after the inquests were heard, only one [Mary Jane Kelly] has prostitute stated under occupation.”

Rubenholt says the reason they were labelled sex workers is that “the Victorians conflated broken women with fallen woman. When a down-and-out woman was found outside, on the street, at night, in the Victorian perspective she was a whore.”

What the five victims did have in common was tragic backstories that were hard to escape from. In the space of just three weeks, Annie Chapman lost four of her siblings to scarlet fever and typhus. Catherine Eddowes was cast out by her family and caught in a cycle of domestic violence with her partner Thomas Conway. Mary Jane Kelly was duped into working in a brothel in Paris and her belongings were stolen. It was with this backdrop perhaps that all five turned to drink.

“One of the things which really dogged the poor was drink,” says Rubenholt. “If you’re not earning much money, the difference between abject poverty and improving your life, or your children’s lives, was that bottle. The money you would spend on drink, the time you would miss off work and the things you’d forget about when you were drunk would prevent you from bettering your life.”

*Houses in the adjoining Fournier Street now change hands for over £3 million.*

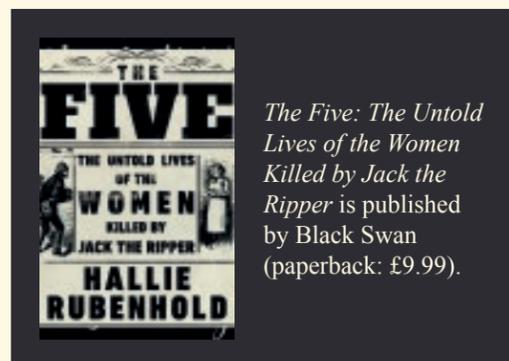


The doors of the workhouse also loomed large for those who fell on hard times. “The greatest shame you could experience was having to darken the doors of the workhouse. Your community will remember you taking your whole family into the workhouse, so when you come out, people will look at you differently and you will have lost a certain degree of respectability.”

Shame is a recurring theme. The Victorians were pioneering in terms of infrastructure, sanitation and education. In Rubenholt’s view “they did what they could but were living in their own religious paradigm. You were given the Bible and told your life would get better if you embraced God. The whole system was designed to shame people because of the poverty that often they were born into. You can’t elevate people out of poverty whilst shaming them at the same time. It doesn’t work.”

After the interview we walk around Whitechapel and look at what remains from the time of the Ripper murders over 130 years ago: the pubs, churches, old merchant houses and cobbled streets. There’s still the buzz of Brick Lane, now famous for its curry houses and street art. The area around The Ten Bells has been gentrified in recent decades and is home to upmarket restaurants and fashion labels. Houses in the adjoining Fournier Street now change hands for over £3 million.

Whitechapel has changed, but it’s striking how relevant Rubenholt’s book is today. It tackles domestic violence, addiction, homelessness, serial killers, immigration and poverty. But we shouldn’t underestimate progress. Rubenholt says: “There are things we don’t like about the 21st century, but there is no better time to be alive than now. We are healthier, we have more options and opportunities than we’ve ever had, especially as a woman.” The stories of the five victims of Jack the Ripper are evidence of this. ■





Illustrations by Craig Frazier.

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# HOW DID WE DO?

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*As the new decade dawns, James Anderson, joint manager of Scottish Mortgage Investment Trust, reflects on past predictions and ponders what's next*

The past is said to be a foreign country by writers and to be no guide to future performance by regulators. But it matters. Unless we understand the past and its deep trends that continue to unfold then we cannot expect to have much success in contemplating the future. So at the end of a decade, how did we do?

## **How we saw the world in 2010**

We entered the decade with three main existing contentions. They were that the rise of China would be crucial, that stock markets underestimate the power of technological change and that the western financial systems were dangerously flawed. The Scottish Mortgage Annual Report of 2010 sets these out in some detail.

I'm surprised by how well these hypotheses have held up. After all, as the great American baseball player Yogi Berra was reputed to have said, "It's tough to make predictions, especially about the future". We hope that our success was anchored in our discipline in concentrating on the long term. That we may just have been lucky cannot be excluded. We need to remember too that translating general concepts into individual stock holdings is fraught with danger as well as asymmetric upside potential. So we shouldn't be complacent.

## China

But let's start with China. In 2010 we were just beginning to grasp that what mattered most for investors was not so much the high levels of economic growth but that as we wrote then "China is now home to an entrepreneurial fury that is leading to the creation of great individual businesses". So far so accurate. But we were slow to follow through on these beliefs. In 2010 we still had less than 9 per cent of our assets in China. We now have a similar percentage of assets in just one broad Chinese enterprise between our holding in Alibaba and that in its unquoted affiliate Ant Financial. As we begin 2020 we have more confidence in the excellence of our Chinese companies than we do in understanding the complex political and economic direction of the country. But China still matters a great deal.

## Technology

In 2010 we noted that an American company was Scottish Mortgage's largest holding for the first time since 1983. The same company, Amazon, is still our largest investment. It embodies both our initial contention about the underestimated power of technology and the evolution of our perspective over the decade. Jeff Bezos commented decades ago on the 'weirdness' in Amazon's business as its tools get much better and cheaper every year. This – as he foreshadowed – took the company to unexpected places. Who knew in 2010 that Amazon Web Services would be the most valuable asset in the company? Imagining and assessing how great a great company can be is the fundamental joy and hard task that our best investments demand of us.



## Western finance

In a sense nothing has changed. It's just that few believe in the finance industry any longer. In 2010 most people imagined that banks could be put back together. As their share prices and the waves of fintech competitors demonstrate, this isn't the likely path. But whether this combination of scepticism and innovation is enough to prevent another financial tragedy remains very much open to doubt.

## Where now?

There's one hypothesis to add for the next decade. There's also much else to mention about how we have a hope of being good at the task in the future beyond the virtues of patience.

The additional contention is the following: we are now reaching a point where over the next decade our sources of energy provision and storage will be revolutionised and that the consequences for our economic system will be both dramatic and deeply beneficial. This is extremely fortunate, as otherwise climate disaster would loom. The progress in solar and wind power, in electrification and in battery efficiencies has been so persistent and cumulatively so large that within the 2020s it is close to inevitable that fossil fuel sources will be economically, as well as morally, thoroughly outmoded. This now matters. We've already seen the initial signs of revolution. A decade ago Tesla wasn't a quoted company. Today, many controversies later, it's the third most valuable automobile company in the world.

*The progress in solar and wind power, in electrification and in battery efficiencies has been so persistent and cumulatively so large*

## Process improvements

So far I've concentrated on what we think. But in many ways it's more important to describe how we think. In my view, more has changed – and hopefully for the better – about this than our conclusions over the last decade.

There are three points I'd like to take the opportunity to mention. The first is a repercussion of our contention, or now simply observation, that western finance is broken. That it is so badly broken provides endless opportunities to go in a different direction. There is a yawning chance for us to build relationships of trust rather than distant transactions with companies. That it is so unusual to be committed and supportive long-term owners of companies means that we can have very different dialogues with companies. We're not remotely interested in guessing short-term earnings prospects or second-guessing daily market movements. We are interested in mutually investing for future growth with competitive advantages. This too matters.

*We're not remotely interested in guessing short-term earnings prospects or second-guessing daily market movements.*

The second point is one that we've made more often. I wouldn't even mention it here if it were not for the fashionable cynicism it provokes. It is that we regard as essential that we build more and better abilities in the unquoted venture capital world. It's critical both because of the research insights it continually offers into evolving companies, competitors and industries, but also because great companies are staying private far longer. This is principally because it's a better way of finding the freedom to invest to build the long-term strengths we search for in all our holdings, whatever their status. We'd suggest that the greater role of venture capital is fast turning into a structural shift. High-profile problems at individual companies and, only slightly less inevitably, at certain providers of capital must not distract us from this task and opportunity whatever the media noise.



Lastly, we mean every word that we have said about the transformation of our research process. The first gradual but now accelerating use we make of academic and scientific input of the highest calibre into discovering the future and simply improving the quality of our work has been hugely rewarding. It used to be that clients would ask for examples of this in individual investment cases but hopefully we're now well beyond that stage of proof. There's barely an

instance where our perspective on companies or our view of the issues isn't driven by this thought process. I can't imagine being without it ever again.

With our hypotheses updated and our processes improved, we're excited about the future opportunities. As ever we need to execute on this vision in the decade ahead in order to reward our loyal shareholders. ■

Data to 31 December 2019 unless otherwise stated. Investments with exposure to overseas securities can be affected by changing stock market conditions and currency exchange rates. Investing in emerging markets is only suitable for those investors prepared to accept a higher level of risk. This is because difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment. Scottish Mortgage Investment Trust has a significant exposure to unlisted investments. The trust's risk could be increased as these assets may be more difficult to buy or sell, so changes in their prices may be greater.

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# NASPERS' NEXT MOVE

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*Africa's biggest company is looking for new worlds to conquer. In a rare interview, the boss of Naspers talks to Trust about food delivery, blockchain and avoiding clapping festivals*

Naspers' \$35 million investment in Chinese internet giant Tencent in 2001 is now worth over \$100 billion. This is one of the most lucrative investments of all time. And when the Cape Town-based company listed on Euronext Amsterdam in 2019, it instantly became Europe's largest e-commerce group. But Naspers is about more than Tencent. The canny investments of this former newspaper publisher have helped to transform the fortunes of consumer internet companies worldwide, from German online food group Delivery Hero to the Russian classified advertising site Avito.

*“Naspers helps these companies with support in artificial intelligence, machine learning and mobile engineering.”*

The joint deputy manager of Monks Investment Trust, Spencer Adair, talked to Bob van Dijk, Naspers' chief executive officer, about Tencent and the road ahead.

**Spencer Adair:** Tell us how your investment in Tencent came about, and how you kept the faith. It must have been tempting to sell and prove how successful you'd been.

**Bob van Dijk:** Yes, it's amusing. If I had a pound for every time someone suggested we sell our Tencent shares, I would be a rich man. We're very pleased we didn't.

About 30 years ago we sent people to China to try to understand the landscape and start making investments. We made lots of mistakes. When we had figured out what the right business models were the team ran into Tencent, led by Pony Ma, and realised that this was a very hungry, but humble and focused group of people.

At the time there wasn't a lot of money in our coffers. The initial investment was \$35 million, a lot for us at the time. It wasn't an easy decision to free up the capital. But 20-odd years later that investment has turned into well over \$100 billion, obviously something we're very pleased with. The position Tencent now has in the Chinese ecosystem means that the future still looks incredibly bright.

**SA:** What is Naspers for? Are you venture capitalists or asset operators?

**BvD:** We operate and invest in high-growth consumer internet businesses around the world. Usually we have a presence on their boards and get involved in setting company strategy. Naspers helps these companies with support in artificial intelligence, machine learning and mobile engineering. We're very long-term oriented and patient about creating value. Our job is to think ahead about changes in consumer needs and where technology can make a difference.

**SA:** Your results have been fantastic over decades now. What stops others from copying what you do?

**BvD:** We've been doing this for a long time. Being active in over 90 countries gives us the tremendous advantage of seeing where innovation happens around the world, which helps us to recognise what a good business model and good entrepreneurs look like. We have a small group of decision-makers, which means we can be nimble.

**SA:** When you're travelling the world looking at companies, what characteristics do you value?

**BvD:** We typically look at over 5,000 investments per year and in the end we invest in about 30, so we say no a lot. We like businesses that use technology to address a fundamental customer need. We've got better at forming a view on what will make somebody successful in their own market context. If we're not convinced that the business model or the entrepreneur can build a leadership position, we probably won't invest.

**SA:** Does listing in Europe mean we should expect you to move away from emerging markets towards more deals in western markets?

**BvD:** We listed our international offshoot Prosus on Euronext Amsterdam for a simple reason. Naspers' market capitalisation was around a quarter of the entire value of all companies listed on the Johannesburg Stock Exchange.

That created a number of dynamics that were not favourable for us. We don't want to be stuck at our present valuation but want to create another \$100 billion of value and we couldn't do that on the Johannesburg Stock Exchange. So we needed a new set of investors – a new home if you will – for that next wave of growth.



**SA:** You're trying to get ahead of trends, seeding businesses that will change how we all live our lives. What new areas are you most excited about?

**BvD:** We made a small investment in the Brazilian food delivery platform iFood about six or seven years ago and having built confidence in the food sector it's now one of our key investment areas.

That's typical for us. We start small, particularly when we don't understand the business, and go in carefully. When we're confident that there is real value creation going on, we make larger investments.

We've also invested in educational technology. Particularly in growth markets, there is a tremendous need for people to improve education and skill levels. We think technology can play a major role in providing the skills people need to succeed. Technology can give people learning methods that work best for them. For example, in India we invested in a company called BYJU'S, a learning app that uses animations to improve kids' performance in the core curriculum.

We've also made several investments in blockchain. The applications are still somewhat limited but it could have a tremendous impact on the way the world works.



Amsterdam: Naspers' second home.

*“If I want applause,  
I’ll go to the theatre.”*

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**SA:** How much information does your central team gather about the companies you invest in? Do you hear quickly if things aren’t working?

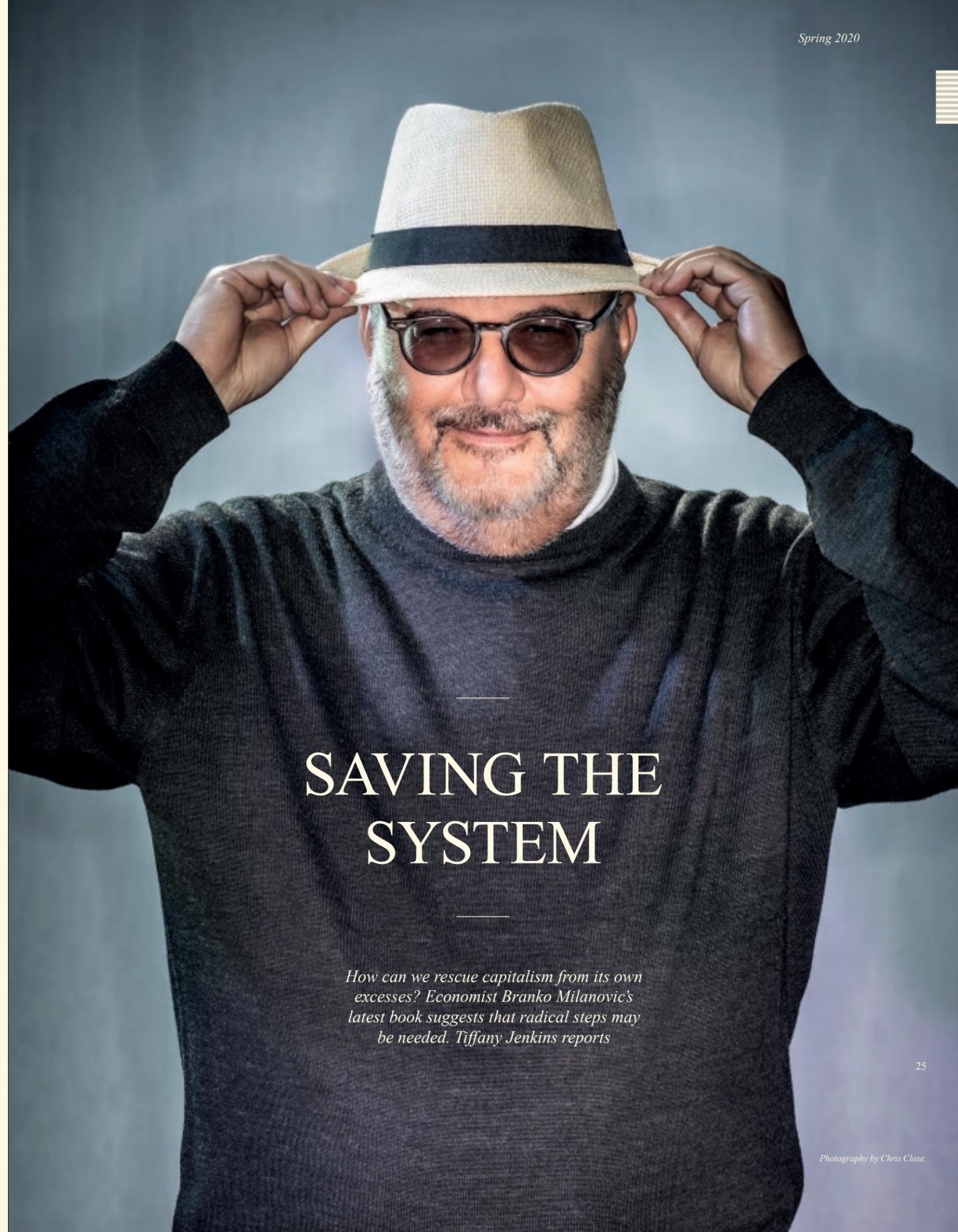
**BvD:** The good news about online and technology businesses is that we can measure everything. Being a very data-driven company enables us to have regular health checks on the businesses we operate and invest in. I try to establish a culture of talking about problems rather than what’s going well. I’d rather the company didn’t turn into one big clapping festival. If I want applause, I’ll go to the theatre.

**SA:** What do you do when you’re not running a \$100 billion company?

**BvD:** I try to spend an hour a day in the gym, because it keeps me sane. It’s the time of day when nobody bothers me, and I can think. I’m an enthusiastic though probably not very good cook. I must fix you a meal one day.

**SA:** Yes, or maybe we could get one delivered? ■

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## SAVING THE SYSTEM

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*How can we rescue capitalism from its own excesses? Economist Branko Milanovic’s latest book suggests that radical steps may be needed. Tiffany Jenkins reports*

Photography by Chris Close.

“We are living in unprecedented times for capitalism: it is the only mode of production that exists.” This is a central theme of *Capitalism, Alone: The Future of the System That Rules the World*, Branko Milanovic’s latest book, which tells the story of the triumph of capitalism, the history of its various forms, and what can be done to improve it.

The use of Marxist terminology is deliberate. The Serbian-American Centennial Professor at the London School of Economics, and one of the world’s leading economists on income distribution and inequality, confirms that “there is quite a lot of Marx in the book”. After all, Karl Marx, the co-author (along with Friedrich Engels) of *The Communist Manifesto*, admired some aspects of capitalism. But don’t worry, Milanovic reassures us, there is “quite a lot of Adam Smith too”. He even gives credit to Margaret Thatcher and her ‘people’s capitalism’.

Casting his eye back over the centuries, Milanovic elaborates. In the latter part of the 19th century, at the peak of globalised capitalism, large parts of the world ran on unfree labour: “Forced labour was only abolished in Hungary in 1848 and in Russia in 1861; and slavery was prohibited in the United States in 1865 and in Brazil in 1888”. As capitalism cannot co-exist with unfree labour it was not the only mode of production in those days. With the Russian Revolution of 1917 and the adoption of state socialism in eastern Europe and China, the following century saw the rise of another competitor to capitalism. But since 1989 capitalism has become the only system and in Milanovic’s eyes that includes China. Indeed he divides modern capitalism into two versions: the ‘liberal’ one found in the west and the hybrid that has emerged in China, which he calls ‘political capitalism’. “If you look at any objective indicator China is a capitalist country.”

“If you look at any objective indicator China is a capitalist country.”



© HECTOR RETAMAL/AFP/Getty Images.



Milanovic reassures us, there is “quite a lot of Adam Smith too”.

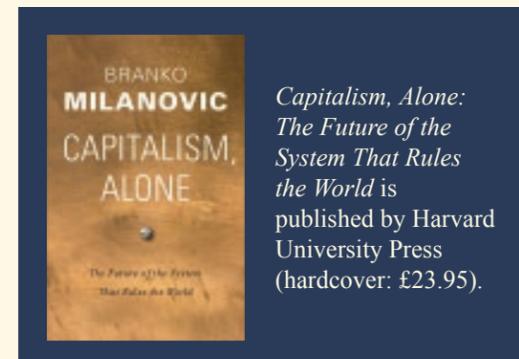
The comma in the title *Capitalism, Alone* is, he says, “supposed to bring about a pause”. It is intended to emphasise that capitalism’s very success also constitutes the greatest threat to its existence: there is no counterpart to put the system under pressure, or to keep it on a moderate path. This permits, Milanovic contends, “excesses and derailment”. Which is exactly what we are experiencing now: in the west ‘liberal capitalism’ strains under increasing inequality (within nations) and immoral excess. That model is now being challenged by ‘political capitalism’ best exemplified by China. Though often regarded as more efficient, it is also more vulnerable to corruption and, when growth slows down, to social unrest.

After his explanation of that pregnant pause, a selection of recommendations follows. “If you believe as I do that a further increase in taxation of current income is difficult politically, then we are condemned to having higher and higher income inequality.” That is unless “we do something at the level of redistribution of capital” by increasing “tax advantages for small investors” and for “employee stock ownership” and allowing “not only managers but also workers to get shares in companies”.

He considers policy examples from Canada, Norway, and Taiwan: a sovereign wealth fund, monetary policy, capital gains tax and even the distribution of free money. All these ideas have merit, he says: “We need to create a society where assets are more equally distributed.”

Milanovic is confident that policies to share income from capital more equally would actually work and that we have the tools to implement them, but as yet policymakers lack the political will. That is where *Capitalism, Alone* comes in. His book is intended to apply the necessary pressure on the political class to address the weaknesses of the victorious capitalist system. That system, for all its faults, is the best we’ve come up with thus far. ■

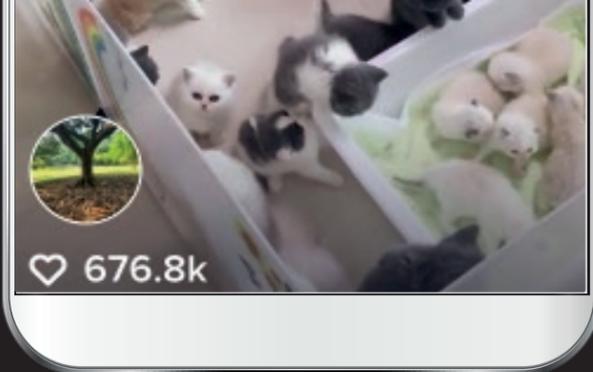
Branko Milanovic was speaking at a private session during the Edinburgh International Book Festival. Scottish Mortgage Investment Trust sponsors the festival.



Capitalism, Alone: The Future of the System That Rules the World is published by Harvard University Press (hardcover: £23.95).

# FAMOUS FOR 15 SECONDS

*The genius of TikTok is not just its short and prolific content. Tom Slater, joint manager of Scottish Mortgage Investment Trust, talks to Jemima Kiss about how the Chinese social media company has achieved worldwide success*



TikTok, for many first-time users, seems a baffling cacophony of slapstick jokes, dance moves and vocal acrobatics, set to catchy strains of pop, rap and country music. Yet scratch beneath the surface and the app is powerfully compulsive, offering an experience more joyful and non-competitive than its social media rivals. The videos created on TikTok are usually about 15 seconds. It's a recipe that is winning over millions of users around the world; the app has been downloaded more than 1.5 billion times globally, according to mobile data researchers Sensor Tower.

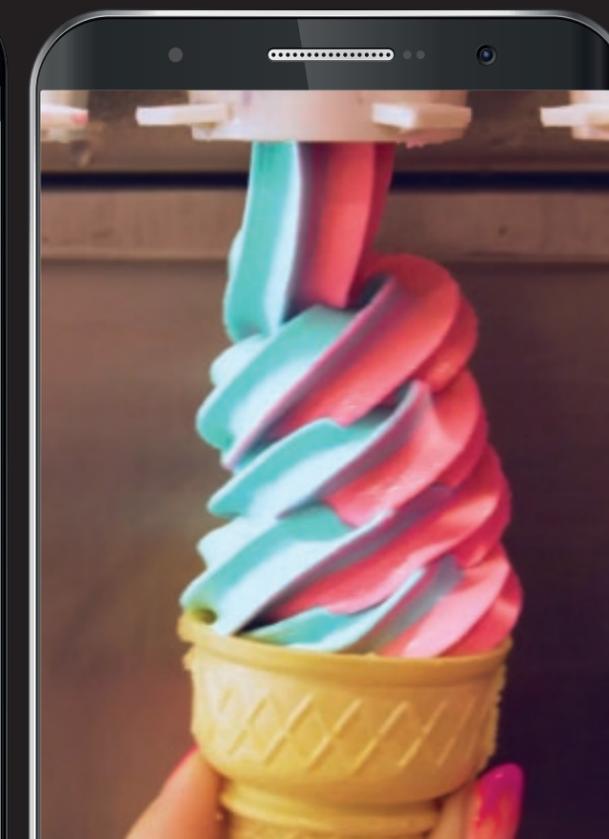
Scottish Mortgage invested in TikTok's parent company ByteDance in May 2019. Zhang Yiming, the company's founder, presented an ambitious vision for the company in which artificial intelligence (AI) would learn and deliver the most engaging content to users. Slater says ByteDance's expansion to more than 14 products and an estimated 1.8 billion monthly active users has defied expectations. "This is now the most interesting company in social media. ByteDance has one of the biggest media distribution networks in China, it's the first Chinese media company to grow an international presence, and it requires only modest capital investment. You can't invest in anything like that on the open market."

That's an impressive feat for an app that launched internationally barely two years ago, but it's far more than a teenage fad, says Tom Slater. "TikTok is fun, lighthearted, away from the politics that has infected the other platforms, and there isn't the pressure to project an image like there is on Instagram. Facebook used to be where you spent time with your friends, but now it's where everybody is, so TikTok has filled that gap for younger people," says Slater. "Teenagers are a demographic which is extremely hard to reach through most other media, and therefore TikTok is very valuable."

The Chinese technology market demands that companies are highly competitive and focused on mobile first, Slater explains. Mobile is the biggest segment in the advertising market, and mobile payments accounted for around 83 per cent of all payments in 2018, according to Daxue Consulting.



Images from TikTok.



In August 2012 ByteDance launched its original product, the news app Jinri Toutiao, exploiting the need for news that fitted a mobile screen. Its AI learns from the activity and preferences of its growing audience, and as the volume of user data grows, so does its accuracy. Using the same methodology of recommendation, the company turned its attention to short-form video and launched Douyin, the original Chinese version of TikTok, in September 2016. ByteDance launched TikTok as the international version in September 2017, and then merged it with the teen karaoke app Musical.ly after acquiring it in November 2017.

“Users have lots of choice, but a significant part of the proposition from ByteDance is AI. ByteDance can understand what users are going to be engaged with and interested in, and it can understand the value of that engagement,” says Slater. ByteDance has built an estimated audience of 800 million users in a very short space of time. “This AI-led approach is not about following your friends and what they like. The algorithm uses your prompts to find things interesting to you, and that’s quite different from things being surfaced by your friends.” It’s also quite universal; many videos use music but no specific language, meaning videos are shared between users around the world.

Chinese companies have to compete aggressively in their domestic market. “They’ve been battle hardened by growing up in a ruthlessly competitive market with thousands of copycats, and to achieve scale they’ve had to fight tooth and claw to get there. Look at food delivery: in the US, Grubhub delivers half a million meals a day.

In China, Meituan Dianping delivers 20 million meals a day, and has half a million people doing deliveries. That’s an order of magnitude bigger than Grubhub.”

ByteDance has used a bold customer acquisition strategy in the west, advertising on rival sites such as YouTube. This has been an incredibly effective way to reach new users, Slater explains, because TikTok’s AI is very good at predicting the content people are most likely to respond to. TikTok has also made it very easy for people to start using the app, with no account set-up or password needed.

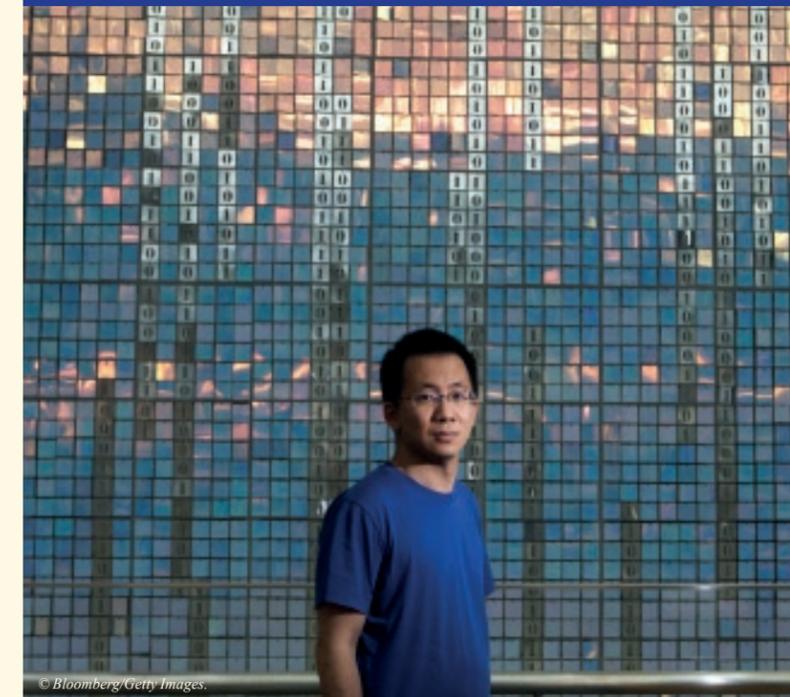
Yet TikTok’s rapid ascendancy has prompted concerns about censorship and security of personal data. The US Government is investigating TikTok as a national security concern, though TikTok has claimed that its user data is stored in the US and not shared with China. And while TikTok has also said it will adopt a more nuanced moderation policy for different countries, it has already faced scrutiny over apparently blocking the accounts of users defending pro-democracy activists in Hong Kong.

Perhaps unsurprisingly for the first truly global Chinese technology company, ByteDance has appeared to scramble for responses to these complex issues. “There are big concerns about how all social media companies handle user data,” says Slater. “Some of these arguments are also very US-centric, and there’s a particular US sensitivity in its relationship to China. But the company does have to get ahead of these arguments and move quickly to reassure the public.”

*TikTok’s AI is very good at predicting the content people are most likely to respond to.*

Crucially, TikTok’s rampant growth looks set to continue, with plans to launch products across workplace messaging, music streaming, search and even smartphones. “ByteDance has hundreds of millions of users and a very engaged audience that spends over an hour a day on the app, so the opportunities to monetise that are massive. Attention is extremely valuable, and we’ve seen it drive huge valuations on companies we’ve seen in the west,” says Slater. Advertising is likely to continue to be the biggest revenue stream, though there is no rush. “Companies that monetise too quickly have often suffered. Facebook and Amazon have built out services slowly. This is long-term thinking over short-term profit, and we hope and expect ByteDance will do the same.” ■

Investments with exposure to overseas securities can be affected by changing stock market conditions and currency exchange rates. Investing in emerging markets is only suitable for those investors prepared to accept a higher level of risk. This is because difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment. Scottish Mortgage Investment Trust has a significant exposure to unlisted investments. The trust’s risk could be increased as these assets may be more difficult to buy or sell, so changes in their prices may be greater.

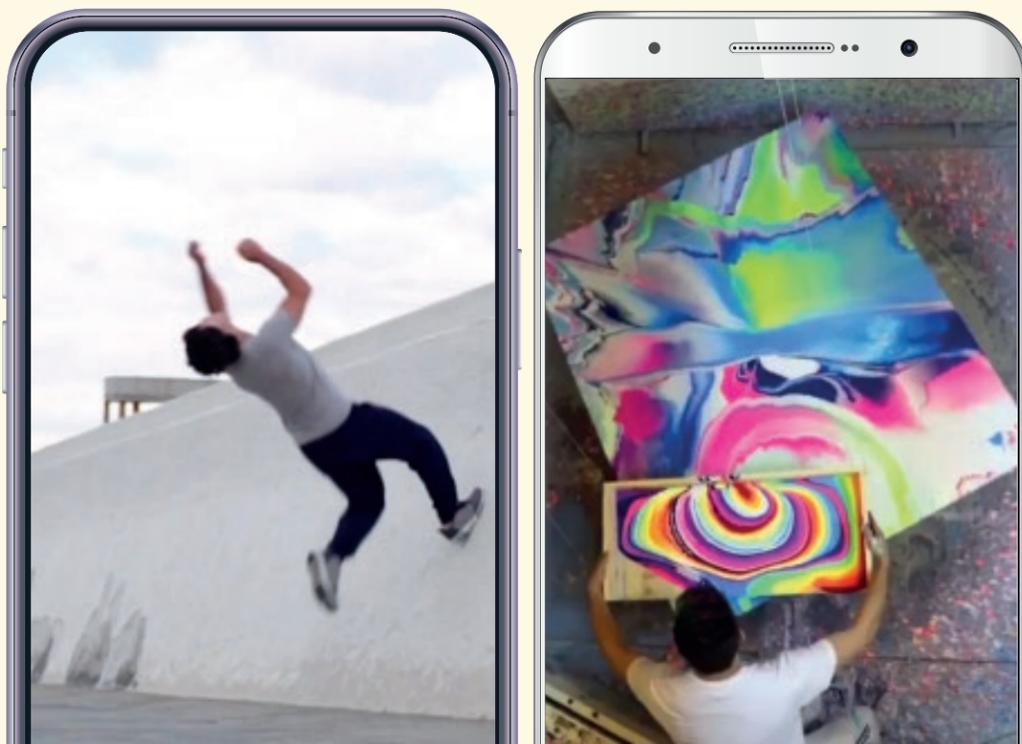


© Bloomberg/Getty Images.

## Zhang Yiming

ByteDance founder and chief executive officer Zhang Yiming was born in Fujian Province, China, in 1983. He studied microelectronics and software engineering at university, and spent six years working in the technology industry, including at Microsoft, before founding ByteDance. Zhang’s vision for the company was clear from the outset, using algorithms to determine the content that users would best engage with: “We are doing very innovative work,” he told Bloomberg in 2017 as he set out his vision for the world’s leading mobile-first AI company. “We are not a copycat of a US company, both in product and technology.”

A serial entrepreneur, Zhang holds a 24 per cent stake in ByteDance (valued at around \$75 billion). He is softly spoken, charismatic and extremely driven. His management style is very non-hierarchical and product-focused, encouraging strong communication and close collaboration among the product team. And though Zhang’s early success has been in China, his ambition and vision have always been global. His name refers to a Chinese proverb that means “surprising everyone with a first attempt”.



CHARTING LONG-TERM GROWTH

# BLACK SKY THINKING

Space is no longer the sole preserve of governments. While NASA's spending has fallen from over 4 per cent of the US Government budget in the 1960s to less than 0.5 per cent in 2019, billionaire-backed space companies have proliferated. Their rapid progress suggests science fiction is fast becoming reality. Elon Musk's SpaceX, Jeff Bezos's Blue Origin and Richard Branson's newly-listed Virgin Galactic are just a few of the new players reducing costs and speeding up progress. Luke Ward, joint deputy manager of Edinburgh Worldwide Investment Trust, looks at what's in store for the future.

## 2020s

The growth of **satellite internet** will connect rural and remote areas at minimal cost, providing improved digital access for users all over the world. **Earth observation** start-ups with miniature satellites will collect huge amounts of data to support industries such as insurance, logistics and environmental monitoring. **Space tourism** will open up for the wealthy and there are signs that a **new space race** based on gaining military advantage is brewing too, this time including China and India.

## 2030s

New rocket technologies could transform long-distance travel on Earth. **Space transport** with hypersonic aircraft and sub-orbital rockets could slash long-haul travel times, cutting the London to Hong Kong flight from 11 hours to around 30 minutes. **Space-based manufacturing** will start making it easier to produce artificial organs, develop better electronics and discover new medicines.

## 2040s

**Space energy and engineering** will allow us to harness the natural resources of space. Solar panels made from moon dust, rocket fuel collected from asteroids and water from under the Martian surface are examples of how **space mining** would support the continued expansion of economic activity and human exploration.

## 2050s

**Space colonies** run by enterprising private companies rather than national governments could start to appear. SpaceX could achieve its mission of making humans a multi-planetary species and establish a self-sustaining city on Mars.

TRIP NOTES

# SEOUL

*A new generation of entrepreneurs is changing the way South Korea does business. Ewan Markson-Brown, manager of Pacific Horizon Investment Trust, travelled to the country's capital to meet them*

**F**ifteen years ago, there was limited enthusiasm from our team to go to Seoul. It was a polluted city full of dull glass towers, brick-built shacks with smoking chimneys and streets crammed with black Hyundai saloons.

South Korea was admirable, not enjoyable. A poor agrarian economy after the 1950–53 Korean War, it became a wealthy industrial exporter under a military dictatorship. From there it made a peaceful transition to democracy, bouncing back from the 1997 Asian financial crisis, helped by a citizens' campaign to repay the International Monetary Fund by donating gold jewellery and other heirlooms.

Back then, most visits to the companies of interest to us were to family-owned *chaebol* conglomerates whose dominance was bolstered by ties with banks and politicians. Meetings in their dark-panelled offices followed a pattern. The top people tended not to speak to us and those who did often radiated irritation at our inability to speak Korean. On the occasions we did meet the boss he sat at a big desk backed by a regiment of sombre-suited men (always men). Investor relations people stuck to a usually lengthy script about their global ambitions and

their growing market share. Our questions sent them leafing through a file of approved answers.

Visiting last autumn it struck me that the Korean metropolis, home to 25 million people, is a more relaxed place than it was, though still a confusing one. On a pleasant cycle along the Cheonggyecheon, a subterranean stream recently transformed into a three-mile green strip through the city's heart, I reflected that some things had changed dramatically in 15 years, others not so much.



*the Korean metropolis...  
is a more relaxed place  
than it was, though still a  
confusing one.*

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The global cachet of K-pop has given Seoul a bit of glamour and confidence. Korea's leadership in technology is impressive, with wifi-enabled cars, strong 4G and 5G networks and some of the world's fastest broadband speeds. Business dress is more relaxed and there are more women in the workplace, though female participation in the workforce is still one of the lowest in the G20. Some offices are brighter and airier.

The investment landscape has changed too. Korea's KOSDAQ stock market, established in 1996, features a new generation of exciting Korean companies. Often they are in the tech and biotech sectors, launched by former *chaebol* workers seeking an outlet for their entrepreneurialism.

Meetings with these owner-managers are dramatically different. Today's growth companies are more western-looking and more flexible. A 40-something generation of leaders is pioneering promising businesses in biotech, IT and fintech, relying on venture capital rather than banks. They have large stakes in their own businesses, speak good English and are more open to foreigners and their questions.

Take, for example, Flitto an online translation company whose app and services are used by over 10 million people worldwide. It started as a crowdsourced translation service and now supplies language data to large US technology companies.

Flitto's chief executive officer Simon Lee met me in their open-plan office in Seoul's trendy Gangnam district, made famous by the international hit 'Gangnam Style'. Its singer Psy uses Flitto's app to talk to fans worldwide. Its speciality, Lee explained, is in translating between Asian languages, where the western giants struggle. Its main global rival is Australia's Appen, but the difference is that Appen relies on professional translators to compile its data, and Flitto claims it can undercut them, saving costs by crowdsourcing it for free from its large user base.

*Douzone looks to the west for inspiration, but...  
its main advantage is its 'Koreanness'.*

I spent an equally interesting morning with Douzone Bizon, a software company with more than an 80 per cent share of the market for small and mid-sized Korean firms. The female investor relations chief told me about plans for Wehago, a new product aimed at making business processes easier for sole traders. Through this product the firm intends to gather enough data to morph into a fintech company, a better route to greater profits. Douzone looks to the west for inspiration, but as with several other Korean companies we own in the portfolio, its main advantage is its 'Koreanness'. Being native to the world's 12th largest economy counts for something, given the linguistic and cultural barriers to entry.

In Douzone's case it means faster response times for changes in regulation and accounting standards. Making the most of this advantage in a market often seen as too complicated to enter by foreign multinationals allows Korean companies to build enough scale to venture into carefully targeted foreign markets, often in Asia.

Exciting companies are not limited to glamorous tech industries. Another I visited was Cowell Fashion, which sells branded clothing but mainly peripheral items such as underwear, an \$8 billion market in Korea. It's a low-growth sector but Cowell



claims to have captured most of the outsourced branded undergarment market thanks to licensing deals, mainly with sports brands including Puma and Adidas. Growth is based on good inventory management, economies of scale and strong branding. International labels are signing up in droves with a company which has proven results. The owner, Jong-min Lim, lives and breathes his fashion: a real entrepreneur, happily sparing the time to explain his business fantastically well. Times have changed.

The new Korea is strong in biotech and its progressive regulator, the Ministry of Food and Drug Safety, wants it to be a global leader. Biotech is now a large cluster, attracting top graduate talent. Companies pioneering new drugs get research and development subsidies, easy insurance protection and other incentives. Many companies have drugs at the Phase III stage, the promising stage that precedes licensing. Those we visited included Enzychem, which produces a cancer drug now being approved for supply to the U.S. Department of Defense, gene research company Bioneer and HanAll Biopharma, a research and development leader in the treatment of dry eye conditions.

One company playing to a particular Korean biotech strength is L&C BIO. It has pioneered the medical use of donated human tissue for use in procedures including cosmetic reconstruction after mastectomies. L&C BIO chief executive officer Lee Hwan-cheol is another young and passionate boss leading a company capable of undercutting western rivals and getting a technology to market more quickly: a proven Korean route to market share and exporting success.

If I've given the impression that business culture in Seoul these days is all open-neck shirts and ping-pong tables, I should mention one throwback meeting. The investor relations man assumed he knew my questions as well as the answers, embarking on a whiteboard lecture on how we didn't understand his business. Old Korea dies hard, but its displacement by a new generation of meritocrats seems all but inevitable. ■

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# THE ROAD TO EUROPE

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*Europe may not have the allure of Silicon Valley, but less glamorous businesses often make exciting investments, as Stephen Paice and Moritz Sitte, joint managers of Baillie Gifford European Growth Trust, explain to Heather Farmbrough*

Over a decade before North Sea oil was discovered at the end of the 1960s, a small company in a rural province of Sweden started manufacturing renewable energy technology products. Now it is one of the leading global manufacturers of heat pumps, an increasingly important source of energy as we try to move away from our reliance on fossil fuels and meet climate change targets. Heat pumps use residual energy, mostly from the ground or air, to provide hot water and warmth. They can also be used to cool down and ventilate buildings.

I could see the attractions of heat pumps on the chilly day that I interviewed Paice and Sitte, who manage Baillie Gifford European Growth Trust. The case for investing in NIBE, however, turned out to be based on much more than the growing market for heat pumps, important though that is. They explain that NIBE has been run by the same chief executive officer for the last 30 years, and it has a long history of making careful and well-managed acquisitions.

Stephen Paice and Moritz Sitte in Edinburgh.

Acquisitions can be an effective way to grow a business, especially in Europe, where growth often depends on buying up small competitors to consolidate. They can also be tricky, as Sitte explains: “Making good acquisitions is a rare and valuable skill, so if we can identify management that is doing this well, with the right mindset and the discipline not to overpay, the potential is there for a big winner”.

Take as another example the Dutch company IMCD, which markets and distributes speciality chemicals used in cosmetics, cleaning materials and medication. As with NIBE, it enjoys a growing market, but careful acquisitions have played an important part in establishing it as the global leader in its field. It’s been run by the same chief executive officer and chief financial officer for the last 20 years, with much of their own capital invested in the business.

There is good reason to invest in dull-sounding industrial companies like these, almost always based in unglamorous locations (sorry, Rotterdam). From Baillie Gifford’s research on the characteristics of European stocks that have delivered the best long-term returns to shareholders, it is these under-the-radar niche industrial companies that have often turned out to be among the winners.

Hunting out winners is what Paice and Sitte do, backed by Baillie Gifford’s European team. They select companies on individual merits, regardless of the sector or country. “If we find a fantastic Italian business that we think is run the right way, then we’ll own it,” explains Paice.

## Hunting out winners is what Paice and Sitte do

Paice and Sitte became managers of Baillie Gifford European Growth Trust in December 2019, following a decision by the board of The European Investment Trust to appoint Baillie Gifford. Since then, the trust’s £388 million portfolio has been completely reinvested in about 40 companies which the managers believe will deliver the best chance of outstanding growth, following the board’s decision to focus the trust on a growth rather than a value style of investing.

Initially, the portfolio is similar to that of Baillie Gifford’s European Fund, the open-ended investment fund which Paice and Sitte also manage. But the trust will invest in some slightly smaller companies and eventually in a small number of unlisted companies, established businesses with a valuation of at least €500 million.

Europe does not have a big tech sector like the US or China, and it has lagged the rest of the world in creating its own ‘unicorns’ – private companies valued at over \$1 billion. It still has some catching up to do. However, Paice says that they have recently seen “a seismic shift” in ambition. “We can see from spending time with companies in Stockholm, Berlin and

Paris that companies are starting to believe they can bring world-beating platforms and tech businesses to life. We think the mindset is changing dramatically. Spotify is a good example.”

Companies such as Spotify don’t require much capital, so they can scale up and grow very fast. On the whole, these types of companies tend to be internet-based and technology-driven, disrupting industries with innovative solutions. As Sitte says: “It’s remarkable how much small teams can achieve when people are aligned with each other. We think this is why start-ups are able – not always, but sometimes – to disrupt an industry.”

The internet has also turned the old arguments in favour of economies of scale on their head. Big is no longer necessarily beautiful; small companies can outsource the things they need, such as technology or cloud storage for their data, and they no longer need to spend large parts of their budget on sales and advertising when there is Facebook and Instagram.

There are signs, too, that disruptive companies don’t stop disrupting, even when they get big. The online fashion retailer Zalando and Ryanair



are more traditional disruptors, and not quite so asset-light, but are based on a sustainable business model which allows for further disruption of their key markets.

Companies like these often tend to be run by their founders, or founders’ families, who play a pivotal role at firms such as Richemont, which owns Cartier and A. Lange & Söhne, and Kering, which owns Gucci and Balenciaga.

“Europe has a number of these fantastic brands whose heritage just can’t be emulated,” Paice says. “However, it is not just about the brand – a lot of names tend to

disappear very quickly. We think the brands that will have staying power are those where the founders or families who own those brands are thinking about passing on the assets to the next generation in better shape than they found them.”

The mention of assets prompts me to ask what happens if the two managers don’t agree on a stock. “We’re joint managers, but we back the other’s

decisions,” says Sitte, who has been working with Paice since 2014. If one likes a stock and the other doesn’t, they buy it, but they don’t buy as much as when they both like it. This is, after all, a portfolio based on conviction. Or, as Sitte puts it: “We still have the same philosophy, so it doesn’t matter if we have slightly different opinions.” ■

Investments with exposure to overseas securities can be affected by changing stock market conditions and currency exchange rates. The trust’s risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater. Net assets as at 31 December 2019.



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# JAPAN'S GROWTH NINJAS

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*What do recent investments tell us about the Baillie Gifford Japan Trust's style? Matthew Brett, manager of the trust, talks to Joji Sakurai about four newcomers*

In most people's minds, the ninja is a fighter with spectacular martial skills – flying through the air waving multiple swords or climbing walls with bare hands to infiltrate enemy fortresses.

In medieval Japan, the ninja's role was in fact to operate in the shadows, gathering strategic intelligence while avoiding direct conflict. The 'nin' in ninja means to conceal oneself and holds meanings of patience, endurance and fortitude in the face of turmoil.

The Baillie Gifford Japan Trust seeks investments that share the qualities of the historical ninja – a blend of patience and perfectionism – for long-term capital growth that shrugs off the frenetic activity of short-term profit seekers.

"My fundamental style is that of a growth investor," says Matthew Brett, who has 14 years of experience in the Japanese Equities team. "We're trying to find high-quality businesses that can grow earnings over time, put money into those businesses, then not fiddle too much. We let the businesses do the growing. The turnover of holdings in Japan Trust is extremely low."

The trust seeks long-horizon growth across sectors. A robotic engineering specialist, a developer of Internet of Things (IoT) barcodes, a precision drill maker, and the creator of mobile game Monster Strike may not seem to have much in common. But these recent investments share attributes that characterise many of the Baillie Gifford Japan Trust's holdings – and demonstrate why Brett sees strong growth potential in a nation that, despite its size, can be as easy to overlook as a ninja in the shadows.

## Growth ninjas

Matthew Brett throws shuriken ninja stars at four of Japan’s best prospects

### DMG Mori: Masterpiece equipment

Elite warriors in feudal Japan wielded swords that are considered works of art. In that tradition, Japan Trust investment DMG Mori crafts laser-guided robotic machines that, according to Brett, “cut metal to an almost unbelievable degree of precision”.

DMG Mori calls its products “masterpiece equipment” in a spirit of perfectionism that raises manufacturing to the level of art. Its machines have applications ranging from car racing – DMG Mori partners with Porsche in the Le Mans Prototype category – to 3D printing.

During the global financial crisis, DMG Mori looked outward rather than inward. In 2009, it took a stake in Germany’s Gildemeister, a fellow maker of machining centres – digitally-controlled systems for precision cutting. Building a relationship of mutual respect, it took over the German firm in 2015.

“Over the past decade, the firms have deepened their relationship, and the effect is that total sales of both are far bigger than before,” says Brett. “They combine German skills and Japanese skills, Japanese distribution and German distribution. They fit together incredibly well.”

### Sato Holdings: Boring but important

The IoT is one of the most exciting tech fields, spawning predictions of ‘a new industrial revolution’. Yet the revolution is underpinned by unglamorous technologies such as barcodes and radio frequency identification chips that allow the IoT’s ‘things’ to find one another.

Sato Holdings excels in this field. It develops, according to Brett, “barcodes that are resilient to extreme environments”.

Sato’s value goes further. Its edge has been an end-to-end identification protocol for IoT devices. The innovation has had an enthusiastic reception in Japan – and is now hitting global markets.

“There’s an element of Sato which is like selling picks and shovels in a gold rush. It’s not exciting but it’s good business,” says Brett. “Beyond that, if you can say ‘we can identify the problem in your process and give you a comprehensive solution’ – that’s very value-adding.”

### Makita: Drilling down to excellence

Makita is a power tool maker founded in 1915. Its drills are not for your Sunday DIY hobbyist but rather for professionals the world over – those prepared to pay a premium for quality.

Makita tools share DMG Mori’s perfectionism. Yet the ninja attributes that attract the pros are endurance and toughness. As Brett puts it, the ability to “accept being bashed about a bit”.

Brett questions the view that Makita might be vulnerable to economic cycles: “One of the aspects we really like is that Makita commands a reliable market. People think it’s more cyclical than it is. If you’re a carpenter or a builder, you just need a drill. And you’ll always buy one, even if business is slightly slower.”

Makita boasts a key advantage: superior batteries. It specialises in advanced cordless drills with batteries that have shorter charge and longer run times. Now it’s moving into outdoor equipment, competing against rivals that power such tools with petrol.

“We think Makita’s battery advantage gives it a one-of-a-kind opportunity,” says Brett. “It opens a new business area – in the end it’s just better to use batteries rather than petrol.”

### Mixi: Waiting for the next Monster Strike

Mixi is an internet company that follows a ninja-like tradition of Japanese tech: after a spectacular strike, wait in the shadows until written off – then strike again.

Nintendo is a famous case. It spent a dormant period after the success of its Wii console and roared back with Switch. More recently, game developer Colopl, also held by the Baillie Gifford Japan Trust, has come back with the augmented reality game Dragon Quest Walk – a Pokémon Go-like experience.

Mixi’s first incarnation was as a social networking site, then Facebook came along. It rebooted as a game developer, with smash hit Monster Strike.

As at 31 December 2019, Mixi’s share price has fallen by about 70 per cent since mid-2017, as investors see Monster Strike’s twilight as reason to dump the company. The Baillie Gifford Japan Trust sees a different narrative: a patient innovator endlessly reinventing itself, with the cash reserves to weather lean times.

Mixi’s next big idea? Gaming for Japan’s biggest growth market: its seniors. Mixi wants to help the swelling ranks of Japan’s elderly lead independent lives with an app that enables them to track gains in strength from exercise – combined with the fun of mobile gaming.

“If you look up the share price graph of Mixi, it’s been going down,” says Brett. “What’s odd is if you look at the balance sheet, over 85 per cent of market value is covered by net cash, suggesting that people aren’t paying attention to the innovation. Yet when I visit Mixi, they’ve got so many ideas – and they’ve got the money to fund and develop those ideas.

“They’re going to make something stick. And at that point, presumably, the market will say, ‘oh gosh, they’re back’.” For Brett and his colleagues, real growth only comes from predicting the unpredictable. ■

*the ninja attributes that attract the pros are endurance and toughness.*



Annual past performance to 31 December each year (%)

	2015	2016	2017	2018	2019
The Baillie Gifford Japan Trust plc	25.5	18.4	47.3	-18.0	21.8

Source: Morningstar. Share price, total return.

Past performance is not a guide to future returns.

Investments with exposure to overseas securities can be affected by changing stock market conditions and currency exchange rates. Investment in smaller companies is generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller companies may do less well in periods of unfavourable economic conditions. The trust’s exposure to a single market and currency may increase risk.

# NEW CHAPTER IN CHINA

*Until recently Baillie Gifford based all its global investment research at its Edinburgh HQ. China demands a different approach. Shanghai-based partner John MacDougall and investment managers Linda Lin and Rio Tu tell Crystal Wilde why*

With tens of millions of prosperous consumers buying from innovative and ruthlessly competitive companies, China is both exciting and daunting for foreign investors. After over 20 years weighing risk and reward in the Middle Kingdom, Baillie Gifford is opening an investment research office in Shanghai, the nation's mercantile heart.

The firm knows the lie of the land. It has invested in Chinese industries as diverse as social media, sharable bicycles, fintech and food. Five of its trusts – Scottish Mortgage Investment Trust, The Monks Investment Trust, The Scottish American Investment Company (SAINTS), Edinburgh Worldwide Investment Trust and Pacific Horizon Investment Trust – have holdings in Chinese companies. In total Baillie Gifford invests around \$36 billion for clients in China.

“We have a strong belief that over the next couple of decades, more and more of the world's innovation and its exciting new business models will emanate from China, as well as from Silicon Valley and Europe,” says John MacDougall. The Baillie Gifford partner set up the Shanghai office in September 2019 after 19 years with the firm in his native Scotland.



*John MacDougall, Linda Lin and Rio Tu in Jing'an Sculpture Park.*

*Photography by Patrick Wack.*



From Edinburgh, at five and a half thousand miles’ distance, Baillie Gifford became a top shareholder in e-commerce juggernaut Alibaba, food delivery app Meituan-Dianping, internet giant Tencent, online travel agent Ctrip and fast-growing shopping app Pinduoduo. But these household names in China are all listed outside the mainland. Now Baillie Gifford is focusing on local markets and the renminbi-traded shares on the Shanghai and Shenzhen stock exchanges. It wants committed on-the-ground expertise to boost firm-wide research into rising Chinese companies.

The panorama from the new 42nd-floor office in Shanghai’s upmarket Jing’an district is testament to China’s seemingly unstoppable economic growth. Since the country’s ‘reform and opening up’ drive was launched in 1979, GDP climbed on average by a head-spinning 9.5 per cent a year to 2018. Now 80 per cent of the market capitalisation of more than half its key industry sectors is listed in local markets.

At home in Edinburgh, distance from the London hubbub allows investors space to think long term. Similarly in Shanghai, MacDougall and the vanguard of Baillie Gifford investors have shunned Pudong, the city’s shiny new Canary Wharf equivalent on the east bank of the wide Huangpu River.

“Because we’ve chosen to be on this side of the river, our neighbours are in sectors such as fashion, the automobile industry, spirits and luxury goods,” MacDougall explains. “The people we’re interacting with and hearing stories about China from aren’t just a bunch of investment bankers.”

According to MacDougall, in a further bid to “shut out the noise of short-termism” the team is following another approach set in Scotland. Under the stewardship of Linda Lin, who grew up in Chongqing, was educated in New Zealand and has worked at Baillie Gifford for six years, the Shanghai office will set up what she calls a “three-tier research platform”, drawing on insights from industry leaders, scholars and independent thinkers to inform their vision.

“We have been building great relationships with the owners of the next generation of companies,” explains Lin. “They are going to transform entire industries so we should invest time with them to find out how they see that transformation – and China in general – developing in the next five to ten years.

“Then there’s the academic perspective, which includes Chinese Government think tanks and writers. Also journalists and independent writers who have insights into companies that investment banks don’t have.”

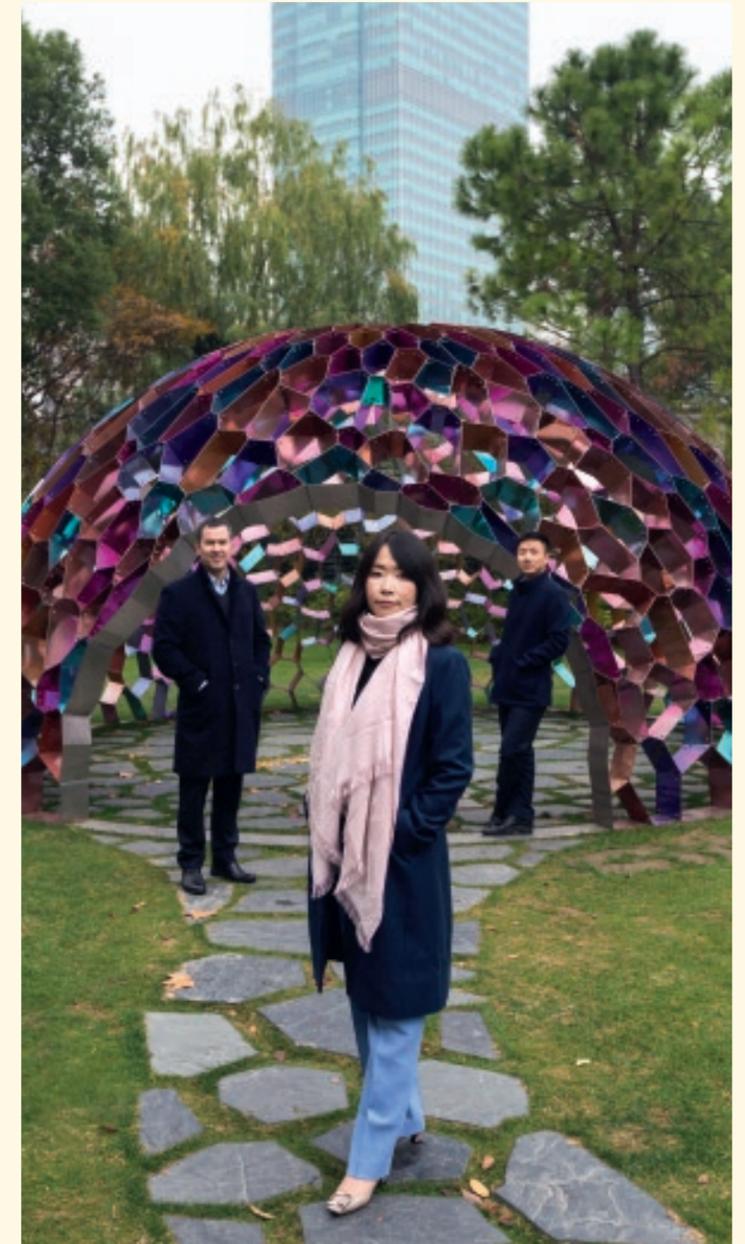
The team will be putting in the legwork to make first contact with China’s often elusive domestically-listed and private companies. Rio Tu, originally from Hubei Province, who joined Baillie Gifford’s graduate programme in 2014, has been attending industry conferences earmarking areas of interest in his first few months back in China, homing in on software and healthcare innovators.

In these sectors, as in all others in China, connections (*guanxi* in Mandarin) do matter. As Tu explains, thanks to Baillie Gifford’s position as a main shareholder in US-based gene-sequencing company Illumina he has been introduced to domestic industry leader Berry Genomics. He has also toured the vast China National GeneBank in Shenzhen, a joint venture between the Chinese Government and Berry’s competitors BGI. Due to their commercially sensitive data, both companies are – and will remain for the foreseeable future – domestically-listed. The gradual building of *guanxi* is essential for winning their trust.

“We already have a very good relationship with companies such as Alibaba and Tencent, and we want to replicate this with domestically-listed companies,” says Tu. “A base in China helps build these relationships gradually.”

This commitment to the slow, steady and long term stands out, given the number of short-term traders within the Chinese market. “We are the culture carriers, the torchbearers for long-termism,” Tu adds, tongue-half-in-cheek. He describes how influential bosses such as Alibaba’s Jack Ma and Wang Xing of Meituan-Dianping have spoken approvingly of Baillie Gifford’s lack of interest in short-term gains compared to most of their shareholders. “Ultimately, we think the same way as the business founders, who are always the most committed investors.”

As China, its companies and its markets attract more international investors, achieving a better understanding of the landscape matters more. Those scouting the horizon, reading the tea leaves and accumulating *guanxi* may be best able to secure long-term growth. ■



Investments with exposure to overseas securities can be affected by changing stock market conditions and currency exchange rates. Investing in emerging markets is only suitable for those investors prepared to accept a higher level of risk. This is because difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment. China investments value at 31 December 2019.



## IN BRIEF

### And then there were ten

The number of Baillie Gifford’s retail investment trusts reached double figures in December 2019, when the firm took over management of The European Investment Trust. The trust, now renamed Baillie Gifford European Growth Trust, is managed by Stephen Paice and Moritz Sitte.

Launched in 1990, the trust was formerly managed by Edinburgh Partners. Its move to Baillie Gifford signals the board’s wish to shift its approach from a value to growth style of investing. The trust aims to hold between 30 and 60 companies, which may include unlisted investments, limited to 10 per cent of the total value of the portfolio. Baillie Gifford manages approximately £49 billion of European equities.

Baillie Gifford is paid an annual management fee of 0.55 per cent of either the market capitalisation or the net asset value of the trust, depending on which is lower; and 0.50 per cent of the lower of these figures on assets of above £500 million. The trust currently has net assets of £388 million.

To hear more from the managers, you can find an interview with them on page 40.

*Please note that Baillie Gifford European Growth Trust’s risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater. Baillie Gifford European investments data to 31 December 2019.*

### Wake up to make-up opportunity in Japan

What’s so alluring about the Japanese beauty products market? Find out by listening to our podcast *Short Briefings on Long Term Thinking*, which includes an interview with Baillie Gifford Shin Nippon manager Praveen Kumar in which he tells us why Japanese consumers spend more per person on skincare and cosmetics than their counterparts in any country in the world.

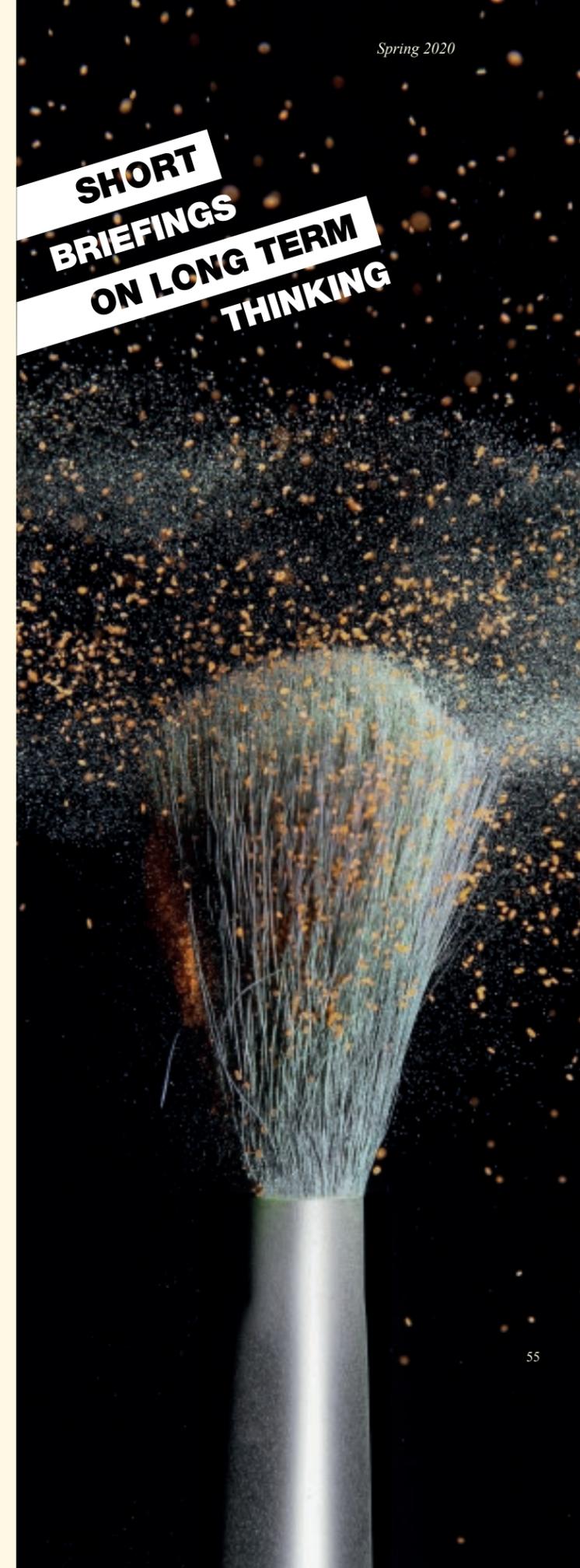
This is a country, he tells us, where women prefer plain packaging and scientific skincare information to glamorous imagery.

Interested? Listen to this and other stories from the front line of investment research at [www.bailliegifford.com/podcasts](http://www.bailliegifford.com/podcasts) and subscribe on Apple Podcasts, Spotify and TuneIn. And if you enjoy the podcast, please spread the word.

### Pick of the prizes

Baillie Gifford’s investment trusts have returned to the podium to collect awards from some of the industry’s most prestigious titles.

Over the course of 2019, these included *Investment Week’s* Company of the Year Awards for The Monks Investment Trust (in the Overseas category), The Scottish American Investment Company (Overseas Income), Edinburgh Worldwide Investment Trust (Overseas Smaller Companies) and The Baillie Gifford Japan Trust (Single Country). Elsewhere, other winners from our portfolio included Edinburgh Worldwide Investment Trust, which won the Global Equities prize in the *Citywire* Investment Trust Awards. Scottish Mortgage meanwhile scooped *Money Observer’s* Global Growth award and was Global Winner in the *Moneywise* Investment Trust Awards.



**SHORT  
BRIEFINGS  
ON LONG TERM  
THINKING**



Great Square in the heart of Stockholm, Sweden.

# A VIEW TO INVEST

Since we began managing investment trusts in 1909, Baillie Gifford’s success has been built on finding investment opportunities for all of our clients through extensive independent research – and we are fully committed to their long-term investment success. Investment trusts are listed companies whose principal purpose is to invest in other companies, with the aim of making money for you. Your money is combined with that of other investors to provide a spread of risk over a wide range of shares. One key benefit is that your money is being professionally managed by our investment fund managers. This means that you don’t have to worry about when to buy or sell individual shares in companies. Some of our trusts aim to provide an income that will grow over time and some have a complete concentration on capital growth. Read on for an overview of the investment trusts we manage and of the platforms you can invest through.

## GLOBAL INVESTMENT TRUSTS

Scottish Mortgage Investment Trust PLC	The Monks Investment Trust PLC
<b>Managed by:</b> James Anderson and Tom Slater	<b>Managed by:</b> Charles Plowden
<b>Sector:</b> Global	<b>Deputy managers:</b> Spencer Adair and Malcolm MacColl
<b>Trust aims:</b> A low-cost, high-conviction global growth portfolio designed to maximise overall returns	<b>Sector:</b> Global
<b>Total net assets:</b> £8,179m	<b>Trust aims:</b> Long-term capital growth from a globally diversified equity portfolio
<b>Next AGM:</b> June 2020, Edinburgh	<b>Total net assets:</b> £2,016m
<a href="http://www.scottishmortgageit.com">www.scottishmortgageit.com</a>	<b>Next AGM:</b> September 2020, London
	<a href="http://www.monksinvestmenttrust.co.uk">www.monksinvestmenttrust.co.uk</a>
The Scottish American Investment Company P.L.C.	Edinburgh Worldwide Investment Trust plc
<b>Managed by:</b> James Dow and Toby Ross	<b>Managed by:</b> Douglas Brodie
<b>Sector:</b> Global Equity Income	<b>Deputy managers:</b> Svetlana Viteva and Luke Ward
<b>Trust aims:</b> To provide shareholders with a dependable source of income, together with growth in income and capital that exceeds inflation over time	<b>Sector:</b> Global
<b>Total net assets:</b> £593m	<b>Trust aims:</b> Capital growth from a global portfolio of initially immature entrepreneurial companies
<b>Next AGM:</b> April 2020, Edinburgh	<b>Total net assets:</b> £574m
<a href="http://www.saints-it.com">www.saints-it.com</a>	<b>Next AGM:</b> January 2021, Edinburgh
	<a href="http://www.edinburghworldwide.co.uk">www.edinburghworldwide.co.uk</a>

## SPECIALIST INVESTMENT TRUSTS

The Baillie Gifford Japan Trust PLC	Baillie Gifford Shin Nippon PLC	Baillie Gifford European Growth Trust
<b>Managed by:</b> Matthew Brett	<b>Managed by:</b> Praveen Kumar	<b>Managed by:</b> Stephen Paice and Moritz Sitte
<b>Deputy manager:</b> Praveen Kumar	<b>Sector:</b> Japanese Smaller Companies	<b>Sector:</b> Europe
<b>Sector:</b> Japan	<b>Trust aims:</b> Seeks capital growth through investment in medium to smaller sized Japanese companies	<b>Trust aims:</b> To achieve capital growth over the long term from a diversified portfolio of European securities
<b>Trust aims:</b> Seeks capital growth through investment in medium to smaller sized Japanese companies	<b>Total net assets:</b> £512m	<b>Total net assets:</b> £388m
<b>Total net assets:</b> £766m	<b>Next AGM:</b> May 2020, Edinburgh	<b>Next AGM:</b> January 2021, London
<b>Next AGM:</b> December 2020, Edinburgh	<a href="http://www.shinnippon.co.uk">www.shinnippon.co.uk</a>	<a href="http://www.bgeuropeangrowth.com">www.bgeuropeangrowth.com</a>
<a href="http://www.japantrustplc.co.uk">www.japantrustplc.co.uk</a>		
Baillie Gifford US Growth Trust plc	Baillie Gifford UK Growth Fund plc	Pacific Horizon Investment Trust PLC
<b>Managed by:</b> Gary Robinson and Helen Xiong	<b>Managed by:</b> Iain McCombie and Milena Mileva	<b>Managed by:</b> Ewan Markson-Brown
<b>Sector:</b> US	<b>Deputy manager:</b> Roderick Snell	<b>Deputy manager:</b> Roderick Snell
<b>Trust aims:</b> Seeks to produce long-term capital growth through investment in US equities	<b>Sector:</b> UK	<b>Sector:</b> Asia Pacific excluding Japan
<b>Total net assets:</b> £332m	<b>Trust aims:</b> To achieve capital growth predominantly from investment in UK equities, with the aim of providing a total return in excess of that from the FTSE All-Share Index	<b>Trust aims:</b> Seeks capital growth through investment in the Asia Pacific region (excluding Japan) and the Indian Sub-continent
<b>Next AGM:</b> September 2020, Edinburgh	<b>Total net assets:</b> £322m	<b>Total net assets:</b> £210m
<a href="http://www.bgusgrowthtrust.com">www.bgusgrowthtrust.com</a>	<b>Next AGM:</b> August 2020, London	<b>Next AGM:</b> November 2020, Edinburgh
	<a href="http://www.bgukgrowthfund.com">www.bgukgrowthfund.com</a>	<a href="http://www.pacifichorizon.co.uk">www.pacifichorizon.co.uk</a>

## FUND PLATFORMS AND SUPERMARKETS

You can invest in a range of our trusts via a number of fund platforms and supermarkets:

Aegon	AJ Bell Youinvest	Aviva	Barclays Smart Investor	Cavendish Online
Charles Stanley Direct	Close Brothers	Fidelity	Halifax Share Dealing	Hargreaves Lansdown
Interactive Investor	James Hay	Selftrade	Standard Life	The Share Centre
Tilney Bestinvest	Willis Owen			

All data as at 31 December 2019.

## STAY UP-TO-DATE

Our monthly Investment Trust Bulletin contains performance data and holdings information for all of the trusts we manage. Copies can be obtained by contacting us, or downloaded at [www.bailliegifford.com/literature](http://www.bailliegifford.com/literature)

The website also contains Key Information Documents, up-to-date analysis, performance and prices as well as the latest Report & Accounts for each trust (where applicable).

## RISK WARNINGS AND IMPORTANT INFORMATION

**Any investment in an investment trust involves risk. You should be aware of the following risks that apply to all of the investment trusts:**

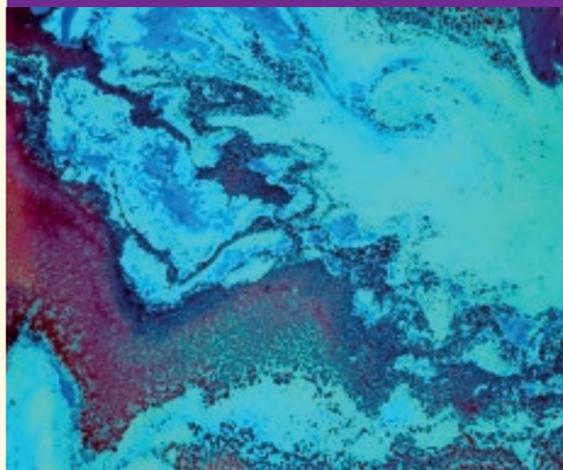
- Baillie Gifford does not offer investment advice. If you have any doubts about the suitability of an investment, please contact an authorised intermediary for advice.
- The trust directors and staff of Baillie Gifford & Co may hold shares in the trusts and may buy or sell shares.
- Tax rates and reliefs may change at any time and their value depends on your circumstances. The information given in *Trust* magazine is based on Baillie Gifford's understanding of current tax law and HM Revenue & Customs practice, which may change at any time.
- The trusts can make use of derivatives, which may impact on their performance.
- The investment trusts managed by Baillie Gifford & Co are listed UK companies. They are not authorised or regulated by the Financial Conduct Authority. The value of their shares and any income can fall and rise and you may not get back the amount invested.
- The trusts can borrow money to make further investments (sometimes known as 'gearing' or 'leverage'). When this money is repaid by the trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the trust will make a loss. If the trust's investments fall in value, any borrowings will increase this loss.
- If a trust invests in unlisted investments, it could increase the risk. These assets may be more difficult to buy or sell, so changes in their prices may be greater.

**Details of the other risks associated with the investment trusts and ways to invest in them are in the Key Information Documents available on our website.**

This publication has been issued and approved by Baillie Gifford & Co Limited, which is the manager and secretary of the investment trusts listed on pages 56 and 57. Baillie Gifford & Co Limited is wholly owned by Baillie Gifford & Co. Both companies are authorised and regulated by the Financial Conduct Authority and are based at: Calton Square, 1 Greenside Row, Edinburgh EH1 3AN.

### FURTHER INVESTMENT INFORMATION

For more information about how to invest with Baillie Gifford visit [www.bailliegifford.com](http://www.bailliegifford.com) or call us on **0800 917 2112**.



## SCOTTISH MORTGAGE INVESTMENT TRUST

# We seek out lateral thinkers to shape our investment ideas.

# Not the usual suspects.

We ignore many opinions produced by the narrow mindset of financial analysts and investment industry commentators. Instead we look to academia, to authors, to experts in industry, to people who think differently. In this way **Scottish Mortgage Investment Trust** can continue to build a portfolio that reflects real-world progress, not financial-world noise.

Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.

**Find out more by watching our ilm at [scottishmortgageit.com](http://scottishmortgageit.com)**  
A Key Information Document is available. Call 0800 917 2112.



*Actual Investors*



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

