

BAILLIE GIFFORD

CIPFA Pension Network – Scottish Workshop Meeting the Investment Challenges

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Background for Investments

Tough environment for pension fund managers

Ten year real return on equities is disappointing

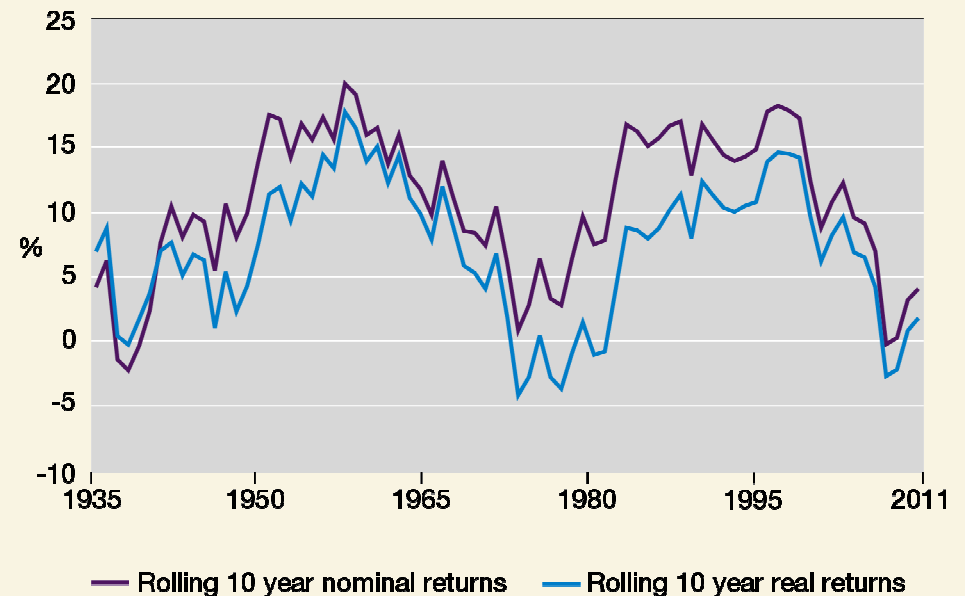
Interest rates are at historic lows

Austerity measures

— Schemes becoming increasingly mature

Challenge to investment approach?

Long-term Equity Returns



Source: Barclays Equity Gilt Study.

Exciting Stock Picking Opportunities

Innovation – Pace of technological change accelerating

- Investing in companies “attacking” existing profit pools by transforming capabilities; and companies that are creating new markets and products

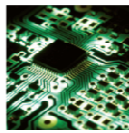
Life Technologies (San Diego)

- Biotechnology company



Altera (San Jose)

- Programmable semi-conductors manufacturer



First Republic Bank (San Francisco)

- US Bank focusing on Silicon Valley



Royal Caribbean Cruises (Miami)

- US cruise company



Cyclical Growth Stocks – Recovering Profits

- At low point of profitability and market rating (P/E)
- Disciplined capital allocations in challenging markets

Jardine Matheson (Hong Kong)

- Holding company with retail and auto franchise activity in Asia



Arcos Dorados (Argentina)

- Largest operator of McDonalds restaurants in Latin America



Consumer Businesses in Emerging Markets

- Middle income consumers to double by 2020 in emerging economies

images: © iStockphoto.com, Getty Images.

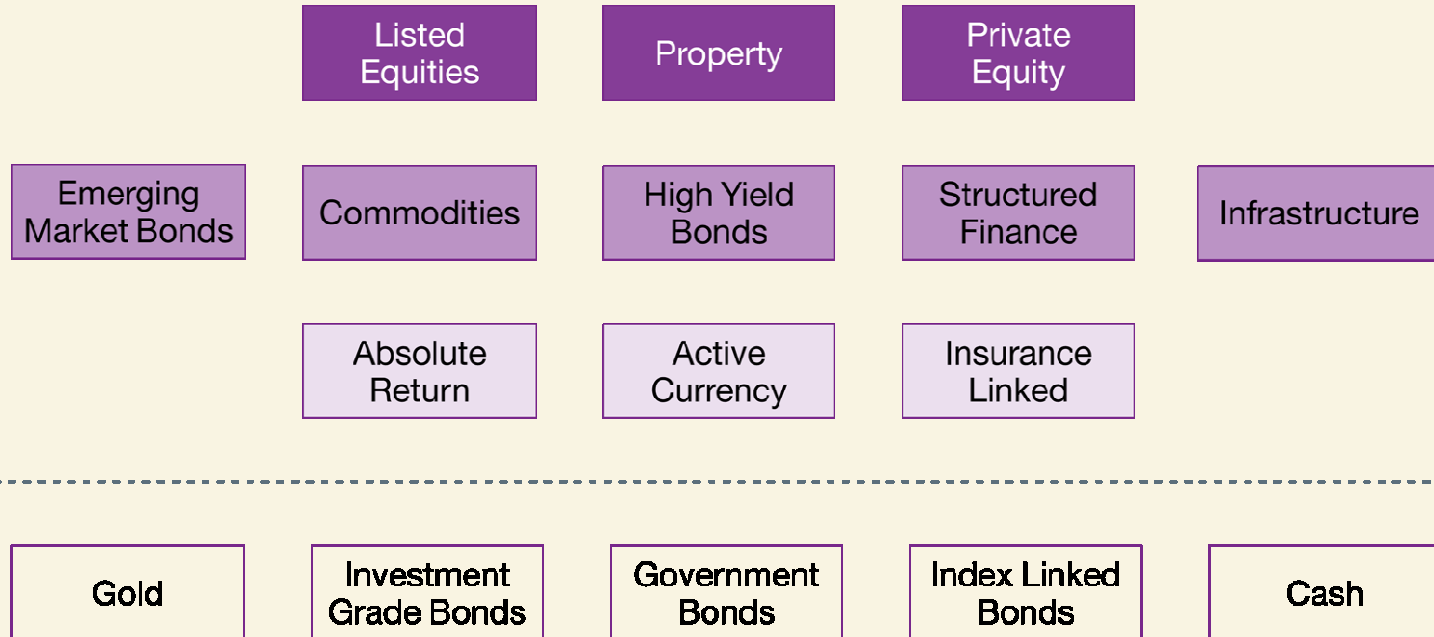
Diversified Growth Investing – Key Principles

Aiming for equity-like returns with lower volatility by:

- Diversifying across a broad range of asset classes
- Flexible asset allocation
- Considering absolute return and risk across the whole portfolio

What Can You Invest In?

Increasing economic exposure



What is Infrastructure?

A catch-all term, covers all manner of companies and essential buildings/projects:

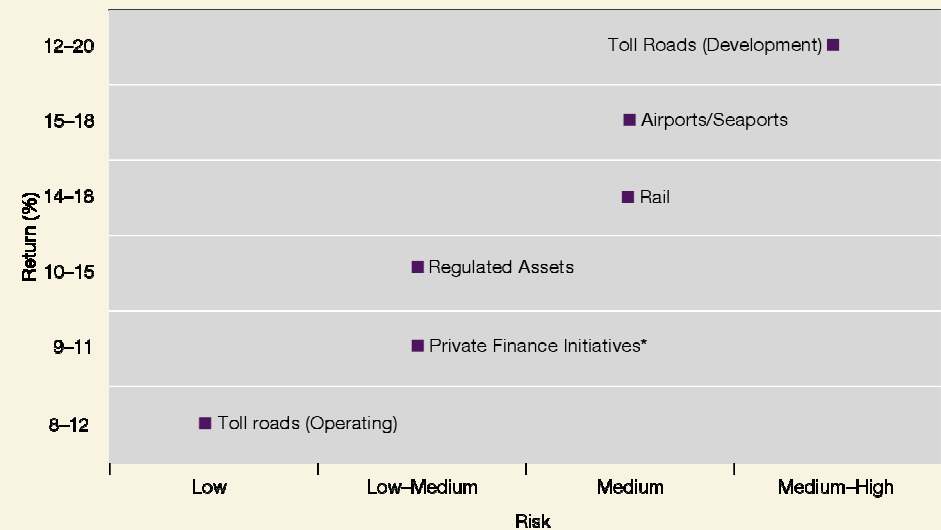
- Schools, hospitals, roads, airports, power and water assets
- Substantial variation in return profile

Lower risk, lower return:

- Operational, availability based payment, term financed

Higher risk, higher return:

- Under construction, demand based payment, face refinancing risk



Source: J.P. Morgan Asset Management – Global Real Assets.

Investment Opportunities – Infrastructure

Direct Holdings

e.g. Ontario Teachers buying Birmingham & Bristol Airports

Private (LP) Funds

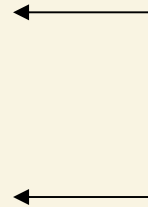
e.g. Innisfree PFI Fund III; ArcLight Energy Partners Fund V

Listed Funds & Companies

e.g. HICL Infrastructure; 3i Infrastructure; Australian Infrastructure Fund

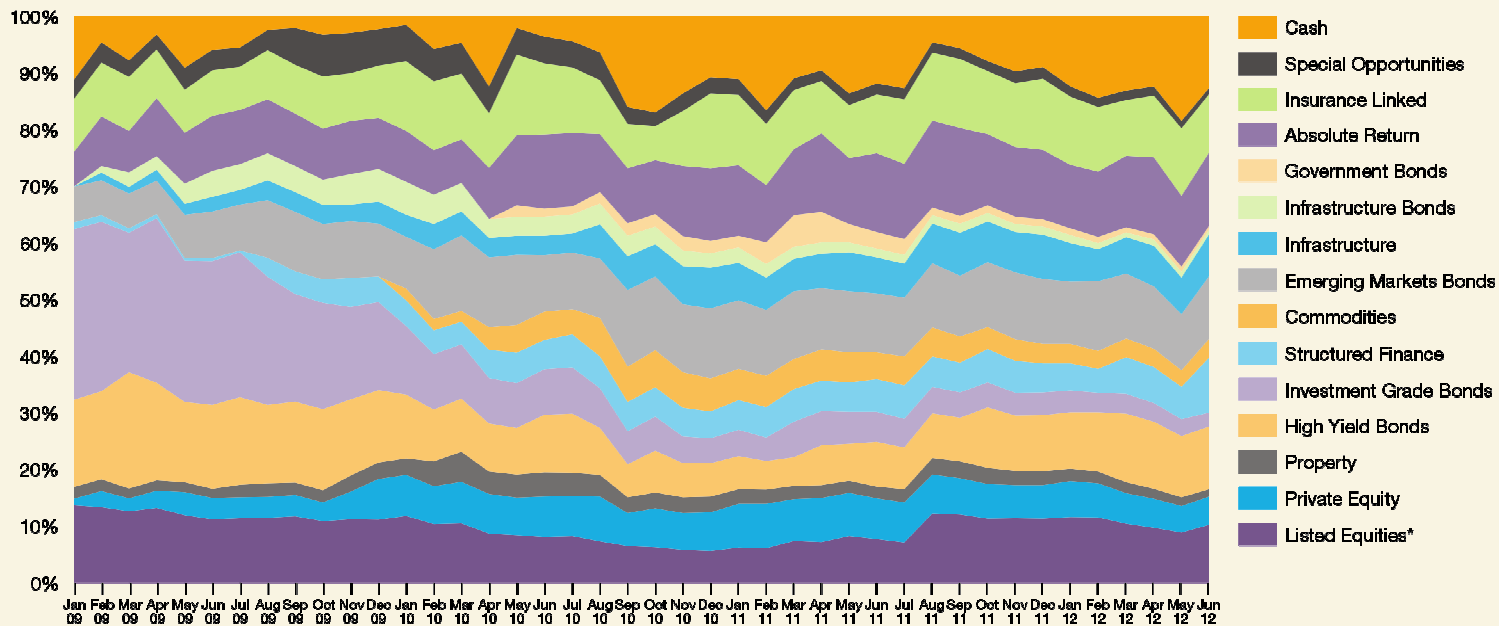
Debt Opportunities

Baillie Gifford Diversified Growth Fund currently invests here



Well Diversified and Flexible Asset Allocation

Diversified Growth Fund Asset Class Weights Over Time



*Reflects effective exposure in portfolio, including futures positions. Cash adjusted accordingly.

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Your Questions

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