

# Value Assessment

As at 30 September 2020

**BAILLIE GIFFORD**

*Investment managers*



# Introduction from the Chairman of Baillie Gifford Worldwide Funds



## Dear Shareholders,

Welcome to Baillie Gifford Worldwide Funds' (BGWF) first assessment of the value that the funds deliver to investors, which in the context of this report will be referred to as the Value Assessment.

As Chairman of the Board of BGWF it is my responsibility to ensure that the board of directors performs a detailed assessment as to whether its funds are providing value to its investors. This will be done by 30 September each year and the report published on Baillie Gifford's website by 31 January of the following year.

BGWF appointed Baillie Gifford Investment Management (Europe) Ltd (BGE) as its investment manager and distributor, who in turn appointed Baillie Gifford Overseas Limited (BGO) as sub-investment manager. BGO offers a range of equity, multi asset and income strategies. In equities, they are ambitious growth investors seeking out the small number of companies that they believe can show prolonged growth through the evolution of business models and technological advancements. They believe that the best opportunities are more likely to be found in companies with inspirational and ambitious management teams, providing goods and services that widely benefit society. They apply this same long-term fundamental thinking in their multi asset and income strategies, where they construct portfolios with the additional objectives of managing volatility or generating a reliable income for clients. They take the responsibilities of ownership very seriously and see their role in the deployment of capital within the financial system as having wider obligations which, when performed well, also add value for clients. They therefore actively engage with the companies in which they invest and, in particular, seek to encourage a long-term focus. This is facilitated by the structure of the Baillie Gifford group itself, which is wholly owned by its working partners and therefore has no external shareholders whose horizons and priorities may differ from its own, or those of

its clients. The investment focus is on meaningful underlying wealth creation over long periods, not on share price speculation. For this reason they prefer to call themselves not only 'active' investors, but Actual Investors.

The board of BGWF acts in the best interests of its investors and monitors the funds to ensure they are being managed in line with their investment objectives. The board comprises appropriately qualified and experienced directors and provides independent scrutiny of the performance of the funds and of the investment manager. The Board has been fully involved in the development of the Value Assessment process, providing input and challenge. A framework and methodology for the Value Assessment process was agreed and implemented.

To assist with the process, third parties were engaged to provide impartial reporting and feedback. For example, Fitz Partners, a fund data specialist, helped with the analysis of performance and the costs incurred by the funds. Survey details from independent researchers also formed part of the VA.

The outcome of the Value Assessment has provided evidence that value has been delivered to investors for all 19 of the BGWF funds with longer-term performance remaining very strong and costs low, in line with the policy of maintaining fees at fair and reasonable levels. 3 funds were affected by the volatile markets in early 2020 and, while all funds will be monitored on an ongoing basis, particular attention will be paid to those.

I am satisfied that having undergone a rigorous Value Assessment that BGWF delivers value to its investors. I trust you will find the underlying details to be informative and reassuring.

*Gavin Scott*  
*Chairman, Baillie Gifford Worldwide Funds plc, January 2021*

# Contents

**What is a Value  
Assessment?**

**03**

---

**Executive Summary**

**04**

---

**Value Assessment  
and Conclusion**

**06**

---



# What is a Value Assessment?

**Baillie Gifford Worldwide Funds has appointed Baillie Gifford Investment Management (Europe) Ltd as investment manager with Baillie Gifford Overseas Ltd (BGO) as sole sub-investment manager.**

BGO is an active investment manager aiming to deliver overall value for investors in Baillie Gifford Worldwide Funds (BGWF) over the long term, keeping costs fair and reasonable and providing excellent levels of client service to its investors. Overall value is delivered and measured having regard to the particular fund's investment objective and policy.

The Central Bank of Ireland (CBI) issued a letter to the Chairman of fund boards in July 2019 requiring the BGWF board to carry out a regular assessment of fund performance and value delivered to investors which for the purposes of this report will be called the Value Assessment.

The Board of BGWF approached the Value Assessment process by firstly defining the scope of the assessment and then creating a framework. The Board then developed a methodology for the assessment which included the engagement of independent third parties. The Board then reviewed, discussed and analysed the results and scored each of the measures. Finally, the Board concluded on the Value Assessment, identifying issues and actions required.

To carry out the Value Assessment four criteria have been measured: performance, costs, classes of shares and quality of service. Although the CBI requirements do not specifically cover quality of service it is considered an important part of the overall service to investors.

The four assessment criteria are:

## **1. Performance against objectives**

Whether the performance of the fund is reflective of the expected active management and whether each fund has delivered on its stated objective.

## **2. Costs**

Whether charges to the fund are commensurate with the level of actual active management and performance achieved.

## **3. Classes of shares**

Whether it is appropriate for investors to hold shares in classes with higher charges than other classes of the same fund.

## **4. Quality of service**

The range and quality of service provided to investors relating to the fund, or any additional services carried out on behalf of investors.

---



# Executive Summary

**The conclusion is that value has been delivered for all 19 of the funds of Baillie Gifford Worldwide Funds. 3 funds will be monitored.**

Longer-term investment performance for the vast majority of the funds remains very strong. Indeed, performance for many of the equity funds has been exceptional when compared to their targets and their peers. BGO's investment teams have recognised radical changes taking place in parts of the economy and have successfully identified companies that will benefit from these dynamics. This has been particularly impressive given the recent volatility of markets and the high volume of political and economic noise.

As they are important to the funds' returns and to investors, the aim is to keep costs

low and transparent. They are low relative to peer groups and overall costs for the funds remain very competitive. In addition, the management fees are in line with those charged to clients or other funds managed by Baillie Gifford and receiving comparable services, including those for entry-level institutional clients in similar mandates.

Baillie Gifford's quality of service is of a high standard, in line with their policy of putting clients' interests ahead of their own.

More detail on the approach taken and the findings are noted later in this report.

## 19 Funds



**16** provided value

**3** provided value with monitoring required

**0** did not provide value





## Results of the value assessment at a glance

The results of the assessment are noted in the table below, with further detail provided later in the report.

### These 16 funds provided value

#### Fund

Baillie Gifford Worldwide Asia Ex Japan Fund
Baillie Gifford Worldwide China A Shares Growth Fund
Baillie Gifford Worldwide Discovery Fund
Baillie Gifford Worldwide Emerging Markets Leading Companies Fund
Baillie Gifford Worldwide European High Yield Bond Fund
Baillie Gifford Worldwide Global Alpha Choice Fund
Baillie Gifford Worldwide Global Alpha Fund
Baillie Gifford Worldwide Global Strategic Bond Fund*
Baillie Gifford Worldwide Global Income Growth Fund
Baillie Gifford Worldwide Global Stewardship Fund
Baillie Gifford Worldwide Health Innovation Fund
Baillie Gifford Worldwide Japanese Fund
Baillie Gifford Worldwide Long Term Global Growth Fund
Baillie Gifford Worldwide Pan-European Fund
Baillie Gifford Worldwide Positive Change Fund
Baillie Gifford Worldwide US Equity Growth Fund

\*Previously called Baillie Gifford Worldwide Global Credit Fund.

### These 3 funds provided value, with monitoring required

#### Fund

Baillie Gifford Worldwide Diversified Return Euro Fund
Baillie Gifford Worldwide Diversified Return US Dollar Fund
Baillie Gifford Worldwide Diversified Return Yen Fund

# Value Assessment and Conclusion

## Value assessment process

When developing the framework to measure whether the funds provide value, the Board of BGWF considered how best to evaluate the key areas – performance against objective, costs and quality of service. No single measure provides a conclusive picture but, when combined, they give a good indication of whether value has been delivered. As such, it was decided not to weight individual criteria but to consider them collectively. As part of the review process information already used by Baillie Gifford for management information and governance of the funds was analysed. The Board also engaged with external parties to provide independent, supplementary data on performance, fund fees and expenses.

When determining whether value is being delivered to investors in the funds, quality of service was measured at the Baillie Gifford Group level, as this is relevant for the whole fund range. The remainder of the criteria have been assessed more specifically on a fund-by-fund basis. B class shares were used for comparative purposes as these are best suited to investors. The Board also looked at the different share classes available to investors.

A RAG rating (red, amber, green) was used to evaluate each of the four criteria and then the Board concluded overall whether value had been delivered to investors in a fund: green (fund provided value), amber (fund provided value, with action taken and/or monitoring required) and red (fund did not provide value with action taken).

## 1. Performance

### Assessment process

The Board considered whether the funds met their investment objectives. The majority of funds have a benchmark, usually an index, against which performance is measured so the Board looked at the performance of the funds (after all the fees have been deducted) relative to the benchmark.

The Board evaluated performance over the time period (three or five years) specified in the investment objective of the fund. The Prospectus recommends that investors view this as the minimum holding period. For new funds which have been in existence for a shorter time, the Board looked at the performance since the launch of the fund although are mindful that the intention is to invest for the longer term.

As BGO (the sole sub-investment manager) is an active fund manager it is recognised that actively managed funds will differ from the benchmark and there will be periods when funds produce better or worse relative returns. The Board also looked at how the funds performed in relation to a peer group that was selected by Fitz Partners.

Where funds have additional or alternative investment objectives, such as the delivery of income or reduced volatility, the Board considered whether these objectives had been met.

### Results

Performance of the funds relative to their investment objectives has generally been very good with the majority of funds rated ‘green’ for performance. Indeed, performance for many of the equity funds has been exceptional when compared to their benchmarks. Returns for the majority of funds over their recommended holding periods have been significantly ahead of the index. The funds have also performed well in relation to the peer group selected by Fitz Partners. BGO’s investment teams have done well to recognise radical changes taking place in areas of the economy and identify which companies will benefit from these dynamics. This has been particularly impressive given the recent volatility of markets and the high volume of political and economic noise.

Where funds have additional objectives, such as generating income or limiting volatility, these have been met.

While performance of the funds has generally been very good, there were some exceptions and three funds are rated as ‘amber’ for this criterion as performance was behind the target over the assessment period, noting this is shorter than the timeframe applied to the funds’ performance objective. Performance of the three multi asset funds (Baillie Gifford Worldwide Diversified Return Euro Fund,



Baillie Gifford Worldwide Diversified Return US Dollar Fund and Baillie Gifford Worldwide Diversified Return Yen Fund) was affected by the market turbulence of early 2020. Until this point performance was positive and subsequent performance has shown significant improvement. Changes to the investment process are not planned for these funds and the expectation is that these funds will perform in line with expectations over rolling five-year periods.

**Conclusion: The Board are satisfied that the majority of funds have achieved their performance objectives, with 16 rated 'green'. The Board will continue to monitor the performance of the 3 Diversified Return Funds.**

## 2. Costs

### Assessment process

The Board reviewed every cost component of the ongoing charges figures (OCF) of the funds. The largest is the management fee, covering the investment management services provided by BGE. The OCF includes not only the cost of investment management but also a number of other costs including the costs of administration and transfer agency services which are provided by BBH. There are no performance fees or exit charges. There are other costs, such as custodian, depositary and audit fees. The Board reviewed these to determine whether they are reasonable for the services provided.

The Board reviewed the cost of the funds compared to others offering a 'comparable service' using data provided by Fitz Partners, who calculated OCFs from the latest available audited accounts for the same peer groups used in the assessment of performance.

Baillie Gifford provides investment management services to a wide range of clients. The Board considered which received comparable services and decided that the firm's range of UK authorised funds, Canadian Master Trusts, US Mutual Funds and Group Trust have similar investment objectives and policies to the equivalent Irish domiciled UCITS funds. In addition, institutional clients for whom Baillie Gifford also manages money were included. These are larger clients, for example pension funds, who ask Baillie Gifford to manage money on their behalf. The B class management fee rates and investment terms of the funds were compared to those offered to the other fund ranges and clients to make sure they were fair, with any differences being justifiable.

Within Costs economies of scale were considered. Economies of scale happen when funds grow and, as a result, it may be possible to renegotiate fees with service providers including the investment manager. First, it was considered whether savings could have been achieved as a result of economies of scale. If there were savings, the Board considered whether they had been passed on to the funds in the form of fee reductions.

### Results

The Board believe that the fees paid to BGE for investment management services are reasonable and provide good value. The Board consider the fees paid to other service providers to the funds were appropriate in relation to the level of service provided.

The costs of the funds are low. All 19 of the funds were ranked in the lowest 25 per cent when compared to the peer group in the analysis carried out by Fitz Partners.

Fee rates for clients of Baillie Gifford, whether these are institutional clients or pooled funds, are set and reviewed by a fees group to ensure consistency across a range of clients. The management fee rates charged to the funds are in line with those for similar funds managed by Baillie Gifford. In addition, the fee rates are mostly in line with entry-level rates charged to institutional clients for similar investment management services. Entry levels for institutional clients depend on the investment strategy but are approximately €100m. Clients who invest more than these levels in the funds are able to benefit from tiered fee rates via a client specific fee letter with Baillie Gifford.

As noted above, BGE charges a management fee to the funds. When these fee rates are being set initially or re-evaluated, the sizes of the funds are taken into account and costs savings passed on via a reduction in the management fee, where appropriate. The management fees for the majority of funds in the range were reduced in October 2017 and are monitored on an ongoing basis to ensure they are fair and reasonable. Other charges and the service provided are regularly reviewed and, when appropriate, fee rates are renegotiated with providers. The Board will continue to monitor costs and renegotiate with providers on a periodic basis. One way to measure whether economies of scale are being achieved is to consider total fund charges relative to those of peers. As noted above fund charges are generally low when compared to peer groups.

**Conclusion: The Board have rated this 'green' for all funds as fee levels overall are fair. They remain low for the funds and appropriate for the level of service provided.**

### 3. Classes of shares

#### Assessment process

The value assessment is based on B class shares which is the 'clean' share class. Other share classes are offered which have different management fee rates, different minimum levels of investment and are designed primarily for distributors of the funds and institutional investors. The different share classes and the management fees are noted in the prospectus for the funds. The Board considered whether the differences in fee rates are justified.

#### Results

Different management fee rates are charged because other companies help with the distribution and marketing of the funds.

With the exception of the A class shares, the management fees for these other share classes are the same or lower than those charged for B class shares. The lower fees are a recognition of the tasks carried out by the other company. The C class shares do not charge a management fee but are only available to institutional clients who wish to have an investment management agreement with Baillie Gifford and are charged separately for investment services.

The A class shares have a higher management fee than the B class shares. This higher rate is to allow the payment of retrocession to the distributor or intermediary and they generally receive 0.50% in retrocession. This retrocession payment recognises that the distributor or intermediary is providing services to the end investor but the Board notes that it is only the end investor who can decide if they are receiving value for this service.

**Conclusion: The Board have rated all the funds 'green' and are satisfied that the reasons for the differences in management fee rates between the different share classes are justifiable and appropriate. The Board believes that investors hold shares in the lowest cost share class available to them via their chosen investment route.**

### 4. Quality of service

#### Assessment process

The quality of investment management and client servicing provided by Baillie Gifford was considered as well as the level of service provided by others. The Board reviewed measures covering a broad range of clients including consumer scores from a third-party researcher, who conducted client and consultant interviews as well as an online survey. Qualitative and quantitative fund ratings from agencies and platforms and consultant ratings were considered. The Board also looked at internal reviews of the service provided by Baillie Gifford to clients as well as that provided by other service providers.

#### Results

The data indicated overall satisfaction levels were very high, with Baillie Gifford's strengths noted as being its investment approach and performance, client service, partnership structure and stability. This is in line with Baillie Gifford's beliefs regarding the merits of active investment management, putting clients' interests first and the key strength of the ownership structure.

Anova Consulting Group, a third-party researcher, reported that Baillie Gifford had an extremely strong net promoter score (the willingness of clients to recommend Baillie Gifford to others), exceeding their benchmark which is based on the results of surveys they conduct for other firms in the industry. Baillie Gifford's top strengths were noted by clients as being their long-term, growth-oriented investment approach and performance, client service and support and organisational strength (partnership structure, stability and open culture).

These were excellent results but there were areas highlighted by the survey and study where Baillie Gifford could do better, for example client reporting and responding to requests for information from potential new clients.

The Board also looked at internal reviews of the service levels of other providers used. No issues were highlighted and the fees paid were commensurate with the service levels provided.

**Conclusion: The Board concluded that a high quality of service is offered to investors and rated this 'green' for all funds.**



## Overall conclusion of value assessment

Baillie Gifford Worldwide Funds aims to deliver overall value for investors in the funds over the long term, keeping costs fair and reasonable and providing excellent levels of client service to investors. The conclusion of the value assessment is that all 19 funds have delivered value. 3 funds will be monitored.

The Board have concluded the performance of each fund is reflective of the expected active management that investors are paying for, and that the fees charged are commensurate with the level of actual active management and performance achieved. The Board have further concluded that each fund has delivered on its stated objective and remains a viable and suitable investment for investors.

---

## Directors of Baillie Gifford Worldwide Funds plc

Gavin Scott (U.K.) (Chairman)

Adrian Waters

Derek McGowan (U.K.)

Christopher Murphy (U.K.)

Jean Van Sinderen-Law

Joss Saunders (U.K.)

## Important information

Please remember investment markets can go down as well as up and market conditions can change rapidly. The value of an investment in a fund, and any income from it, can fall as well as rise and you may not get back the amount invested. Further details of the risks associated with investing in a fund, performance history and the full investment objective and policy can be found in the Prospectus, Key Investor Information Document (KIID) and Report and Accounts which are available by contacting us below or visiting Baillie Gifford's website [www.bailliegifford.com](http://www.bailliegifford.com).

To contact us please call Brown Brothers Harriman Fund Administration Services (Ireland) Limited: **00 353 1 603 6490 (fax 00 353 1 603 6310)** or visit the Baillie Gifford website at [www.bailliegifford.com](http://www.bailliegifford.com) for further information.

# **CURIOUS ABOUT THE WORLD**

**[bailliegifford.com/thinking](http://bailliegifford.com/thinking)**

**Calton Square, 1 Greenside Row, Edinburgh EH1 3AN  
Telephone +44 (0)131 275 2000 / [www.bailliegifford.com](http://www.bailliegifford.com)**